

**Fiscal Status Report
For the Year Ended June 30, 2009**

**THE CITADEL
THE MILITARY COLLEGE OF SOUTH CAROLINA**

**Lieutenant General John W. Rosa, USAF, Ret.
President**

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THE CITADEL BOARD OF VISITORS

FY 2009-2010

MEMBERS

Colonel Douglas A. Snyder
Colonel Glenn D. Addison
Colonel William E. Jenkinson III
Colonel Allison Dean Love
Colonel William G. Kastner
Colonel Claude W. Burns III
Colonel W. Thomas McQueeney
Colonel Fred L. Price, Jr.
Lieutenant Colonel Ben W. Legare, Jr., USA, Ret.
Colonel James M. McQuilla
Lieutenant General W. Michael Steele, USA, Ret.
Colonel Myron C. Harrington, Jr., USMC, Ret.

Chair
Vice Chair

Secretary to the Board of Visitors

EX OFFICIO BOARD MEMBERS

The Honorable Mark Sanford
Major General Stanhope Spears
The Honorable Jim Rex

Governor of South Carolina
Adjutant General of South Carolina
State Superintendent of Education

EMERITUS MEMBER

Colonel Leonard C. Fulghum, Jr.

Member Emeritus

SENIOR ADMINISTRATIVE STAFF OF THE CITADEL

Lieutenant General John W. Rosa, USAF, Ret.	President
Major General James A. Grimsley, Jr., USA, Ret.	President Emeritus
Brigadier General Samuel M. Hines, Jr.	Provost and Dean of the College
Colonel G. Dewey Yeatts	V.P. for Facilities and Engineering
Colonel L. Jeffrey Perez	V.P. for External Affairs
Mr. Larry W. Leckonby	Director of Intercollegiate Athletics
Colonel Sue E. Mitchell	V.P. for Finance and Business Affairs
Colonel Leo A. Mercado, USMC, Ret.	Commandant of Cadets
Colonel Joseph W. Trez, USA, Ret.	Director of The Citadel Staff

FINANCIAL STAFF OF THE CITADEL

Lieutenant Colonel Ralph P. Earhart, CPA	Dir., Financial Services	(843) 953-5025
Ms. Susan B. Reynolds, CPA	Accounting Manager	(843) 953-3176
Colonel James N. Openshaw, USAF, Ret.	Budget Officer	(843) 953-7184
Ms. Diana L. Shoaf	Treasurer	(843) 953-5254
Mr. John L. Walker	Dir., Procurement Services	(843) 953-5108
Major Charles R. Adams, Jr.	Dir., Auxiliary Services	(843) 953-6950

A Brief History of The Citadel

The Origin

In 1822, the South Carolina Legislature passed an “Act to Establish a Competent Force to act as a Municipal Guard for the Protection of the City of Charleston and Vicinity.” Land on the north end of Marion Square was selected for an arsenal and guardhouse, and in 1829, the architect, Frederick Wesner, completed the building which was known as The Citadel. A similar facility was constructed in Columbia, South Carolina, which was known as The Arsenal. State troops occupied both sites at a cost of \$24,000 a year.

Governor John P. Richardson felt that guard duties should be combined with a system of education. On December 20, 1842, the South Carolina Legislature passed an act establishing the South Carolina Military Academy. The Citadel and The Arsenal were converted into educational institutions, and students replaced the state troops. In 1845, the role of The Arsenal was changed to the instruction of freshmen. As a result, cadets spent their first year in Columbia and transferred to The Citadel for the remaining three years. The South Carolina Military Academy became known for its high academic standards and strict military discipline.

Civil War Period

Enrollment in The South Carolina Military Academy increased from thirty-four students in 1843 to 296 in 1864. The \$200 tuition in 1843 increased to \$1,200 in 1864. When South Carolina seceded from the Union in December 1860, Major Robert Anderson moved his garrison of U.S. troops to Fort Sumter and requested reinforcements from the federal government. On January 9, 1861, Citadel cadets stationed on Morris Island fired on the U.S. steamer, the *Star of the West*, as it attempted to supply Fort Sumter with troops and supplies. This was the first overt act of the war.

On January 28, 1861, the Corps of Cadets was made part of the military organization of the state and was known as The Battalion of State Cadets. The Arsenal and The Citadel continued to operate as military academies; however, classes were often disrupted when the governor called the cadets into military service. Manning heavy guns, mounting guard duty, and escorting prisoners were among the services performed by the cadets. On February 18, 1865, The Citadel ceased operation as a college when Union troops entered Charleston and occupied the site. The Arsenal was burned by Sherman's troops and never reopened.

Reopening

In January 1882, The Citadel buildings were returned to the State of South Carolina after seventeen years in the possession of the United States government. In the same month the legislature of South Carolina passed an act to reopen the college. The 1882 session began with an enrollment of 185 cadets.

Name Change

The name of the college was officially changed in 1910 to The Citadel, The Military College of South Carolina. The word *Academy* had become synonymous with secondary schools, and the public had the misconception that the South Carolina Military Academy was a preparatory school.

New Campus

The Citadel had outgrown its campus on Marion Square, despite numerous building additions, and could accommodate only 325 students. In 1918, the City of Charleston gave the State of South Carolina 176 acres on the banks of the Ashley River for a new campus. In 1922, the college moved to its current location.

Today, the picturesque campus contains twenty-six major buildings. In addition to a Corps of approximately 2,000 cadets—coeducational since 1996—The Citadel Graduate College offers undergraduate and graduate degree programs during the evening and summer. *The U.S. News & World Report* has ranked The Citadel among the best colleges in the region in its surveys of “America’s Best Colleges.”

Military Service

As early as 1846, Citadel cadets served as drill instructors for the recruits of South Carolina's Palmetto Regiment prior to the regiment's departure for the Mexican War.

During the Civil War, the Corps of Cadets participated in eight engagements. The flag of the Corps of Cadets includes eight battle streamers representing those engagements and one streamer representing the Confederate States Army.

In the war with Spain in 1898, more Citadel alumni volunteered for service than were needed. In World War I, Citadel graduates were among the first contingents of American troops to fight with the English and French divisions. In major conflicts since World War II, Citadel cadets have continued to perform military service for their country. Twenty-three cadets served on active duty as members of the National Guard and Reservists during Operation Desert Storm.

The Student Body

In 1864, there were 145 cadets in the Corps. When the move to the new campus was made, there were almost 300 cadets. In 1947-48, 2,271 students were enrolled, including cadets and veterans. Nearly 3,500 veterans of World War II and the Korean conflict, most of who were civilian students, attended the College under the G.I. Bill. The Citadel program for veterans ended in 1960, but was resumed in 1967. The veterans' civilian day program was terminated in 1992. The Corps of Cadets maintains a strength of approximately 2,000 cadets. Through The Citadel Graduate College, undergraduate programs have been offered for citizens of the Lowcountry since 1966, and the graduate programs have been available since 1968. In the 1993-94 academic year, that college was formally designated as the College of Graduate and Professional Studies, and in 2007, renamed to The Citadel Graduate College. This college offers three undergraduate degrees, two through cooperative "2+2" programs with Trident Technical College. In addition, six masters degree programs are offered, three jointly with the University of Charleston, and two specialist degree programs are offered. The Citadel also offers a Maymester and Summer Program through The Citadel Graduate College.

Archives and Museum

The Archives was founded in 1966 when General Mark W. Clark donated the papers relating to his military career. Today, there are over three hundred collections in the Archives which pertain to The Citadel or have military significance. Some notable collections include the papers of Pulitzer Prize winning historian, Bruce Catton, and the Civil War letters of 1857 Citadel graduate, General Ellison Capers. Authors and scholars from the United States and Europe frequently visit the Archives to conduct research.

The Museum features the history of The Citadel from its founding in 1842 to the present. Photographs from the Archives highlight the exhibits that portray the social, military, academic, and athletic aspects of cadet life. Citadel rings from 1895 to the present are on display. Citadel graduates who lost their lives in major conflicts since World War II are memorialized in photograph albums in the Museum.

General Information

Accreditation

The Citadel is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools, the recognized regional accrediting body in the eleven U.S. Southern states (Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas and Virginia) and in Latin America for those institutions of higher education that award associate, baccalaureate, master's, or doctoral degrees. The SACS web address is <http://www.sacs.org>. Information on the status of The Citadel's accreditation may be obtained from the Commission on Colleges by calling 404-679-4500 or by writing to the SACS home office, 1866 Southern Lane, Decatur, GA 30033. The Citadel is accredited by SACS to award the bachelor's, master's, and specialist degrees.

Civil Engineering and Electrical Engineering Programs are accredited by the Engineering Accreditation Commission/Accreditation Board for Engineering and Technology (ABET), 111 Market Place, Suite 1050, Baltimore, MD 21202-7700 - telephone: (410) 625-2238, fax (410) 625-2238. The web address is www.abet.org or email them at eac@abet.org.

The undergraduate program in Business Administration and the program leading to the Master of Business Administration are accredited by the Association to Advance Collegiate Schools of Business, 777 South Harbor Island Boulevard, Suite 750, Tampa, FL 33602-5730 - telephone: (813) 769-6500, fax (813) 769-6559. The web address is www.aacsb.edu.

Programs for the preparation of secondary teachers at the bachelor's level, for the preparation of secondary and special education teachers at the master's level, for the preparation of guidance counselors at the master's and specialist degree levels, and for the preparation of school superintendents at the specialist degree level are accredited by the National Council for Accreditation of Teacher Education.

The dean of the School of Education serves as the Director of Teacher Education.

The B.S. Chemistry Program is accredited by the American Chemical Society. The Citadel's School Psychology Program has been granted full approval by the National Association of School Psychologists. The Clinical Counseling program is accredited by the Master's in Psychology Accreditation Council.

Statement of Vision

Achieving excellence in the education of principled leaders.

Core Values

Academics: We produce graduates who have insight into the issues, ideas and values that are important to society and possess the skills necessary to deal with them successfully.

Duty: We emphasize the importance of individual accountability and the moral obligation of responsibility for the welfare of others.

Honor: We adhere to a code which teaches that uncompromising personal integrity is the primary guide in all situations.

Morality: We believe that an individual's character is of utmost importance and, therefore, we provide training which emphasizes ethical principles and core values.

Discipline: We operate a leadership laboratory which emphasizes a structured environment, acceptance of responsibility, self-confidence and service to others.

Diversity: We promote diversity in all segments of our campus community and in all aspects of college life.

Mission

The Citadel's mission is to educate and prepare graduates to become principled leaders in all walks of life by instilling the core values of The Citadel in a challenging intellectual environment. The Citadel strives to produce graduates who have insight into issues, ideas, and values that are of importance to society. It is equally important that Citadel graduates are capable of both critical and creative thinking, have effective communication skills can apply abstract concepts to concrete situations, and possess the methodological skills needed to gather and analyze information.

Throughout its history, The Citadel's primary purpose has been to educate undergraduates as members of the South Carolina Corps of Cadets and to prepare them for post-graduate positions of leadership through academic programs of recognized excellence supported by the best features of a structured military environment. The cadet lifestyle provides a disciplined environment that supports the growth and development of character, physical fitness, and moral and ethical principles.

A complementary purpose of The Citadel, realized through The Citadel Graduate College, is to provide the citizens of the Lowcountry and the State of South Carolina opportunities for professional development by offering a broad range of educational programs of recognized excellence at both the graduate and undergraduate levels. These programs are designed to accommodate the needs of non-traditional students seeking traditional and demanding academic challenges.

Institutional Characteristics

The Citadel is a coeducational, comprehensive, state-assisted, four-year institution whose primary undergraduate student body consists of approximately 2,000 members of the Corps of Cadets, all of whom reside on campus. The primary service area for these students is regional, with approximately half of each freshman class coming from South Carolina. The Citadel, however, does draw undergraduate students from all parts of the United States and many foreign countries. The college offers a wide range of baccalaureate degree programs (Bachelor of Arts, Bachelor of Science, Bachelor of Science in Business Administration, Bachelor of Science in Civil Engineering, and Bachelor of Science in Electrical Engineering) in the humanities, social and natural sciences, business administration, engineering, and education. These academic programs prepare graduates of the Corps of Cadets for a variety of careers; about half of these graduates enter business and the professions, a third or more enter the military and government service, and the remainder go directly into graduate and professional study. Many graduates choose to pursue professional or graduate degrees later in their careers.

Through its undergraduate and graduate programs, The Citadel Graduate College serves a degree-seeking population of approximately 1,000. The primary service area is the South Carolina Lowcountry. The Citadel Graduate College offers three baccalaureate degree programs (Bachelor of Science in Business Administration, Bachelor of Science in Civil Engineering, and Bachelor of Science in Electrical Engineering) and six graduate degree programs (Master of Arts, Master of Science, Master of Arts in Teaching, Master of Arts in Education, Master in Education, Master of Business Administration, and Specialist in Education). Meeting the needs of the South Carolina Lowcountry in terms of instruction, public service, and research, including such initiatives as cooperative programs with other educational institutions, is an important part of The Citadel's mission.

Together, the Corps of Cadets and The Citadel Graduate College enroll approximately 3,000 students, about three-fourths of whom come from South Carolina.

In its education programs, The Citadel acknowledges and endorses the teacher-scholar ideal, recognizing that the excellence of all of its academic programs is dependent upon the quality of its faculty. This ideal is pursued through teaching and lecturing, researching, writing, publishing, and public service. The Citadel's faculty also address audiences beyond the college by sharing their knowledge with other scholars and with the public.

The Purpose of The Citadel's Military Environment

The Citadel seeks to provide the best qualities of a military and disciplined environment to support the growth and development of character, physical fitness, and moral and ethical principles, thereby preparing its students to meet the requirements of citizens and especially of leaders. From the first year, with the Fourth Class System, through the senior year, the military environment requires additional duties and responsibilities not normally found on a college campus.

The military environment at The Citadel also attempts to draw out and cultivate such values as truth, honor, integrity, and courage. Qualities of proper behavior and etiquette are stressed, and excellence in military bearing and appearance is taught. Whether in military or civilian life, the testimony of the value of this institution in service to the nation, state, and local communities is prominent.

SECTION I



General Information And Citadel Statistics

CORPS OF CADETS

Geographical Distribution

Alabama	15	Missouri	9
Alaska	1	Montana	1
Arizona	13	Nebraska	2
Arkansas	3	Nevada	4
California	45	New Hampshire	6
Colorado	12	New Jersey	58
Connecticut	15	New Mexico	4
Delaware	8	New York	45
District of Columbia	1	North Carolina	151
Florida	141	North Dakota	2
Georgia	153	Ohio	37
Hawaii	-	Oklahoma	3
Idaho	2	Oregon	2
Illinois	20	Pennsylvania	59
Indiana	8	Rhode Island	2
Iowa	2	South Carolina	900
Kansas	2	Tennessee	30
Kentucky	8	Texas	64
Louisiana	6	Utah	1
Maine	4	Vermont	2
Maryland	61	Virginia	75
Massachusetts	23	Washington	7
Michigan	24	West Virginia	4
Minnesota	5	Wisconsin	5
Mississippi	4	Wyoming	-
		APO and FPO	8
Total U.S. Cadets			2,057
Total Foreign Cadets			<u>41</u>
Grand Total			<u><u>2,098</u></u>

SOUTH CAROLINA CADETS

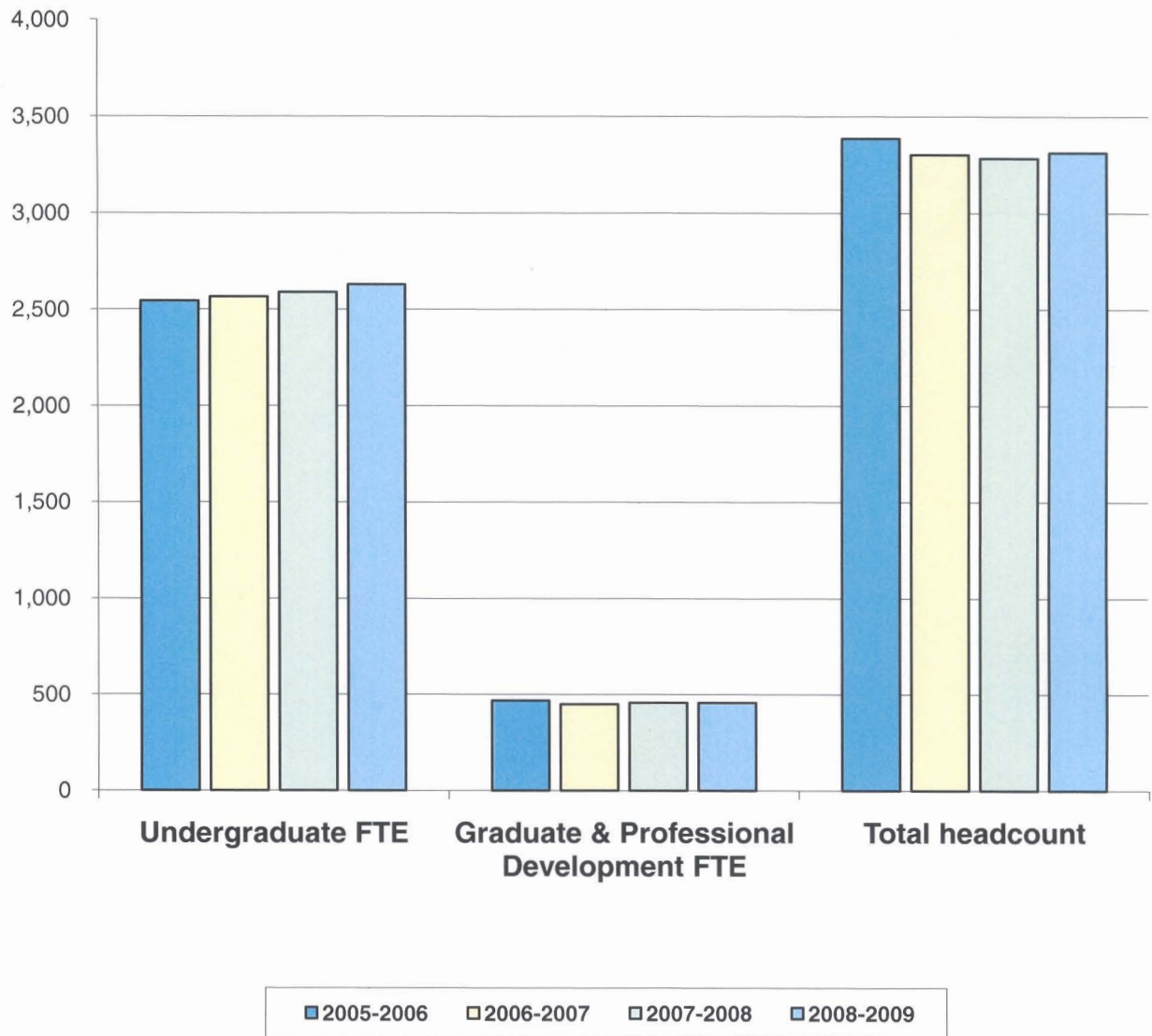
By County

Abbeville	4	Greenwood	23
Aiken	19	Hampton	5
Allendale	-	Horry	15
Anderson	24	Jasper	-
Bamberg	6	Kershaw	8
Barnwell	2	Lancaster	1
Beaufort	22	Laurens	6
Berkeley	61	Lee	-
Calhoun	4	Lexington	69
Charleston	147	Marlboro	6
Cherokee	3	McCormick	-
Chester	6	Newberry	4
Chesterfield	4	Oconee	9
Clarendon	9	Orangeburg	12
Colleton	4	Pickens	14
Darlington	13	Richland	90
Dillon	6	Saluda	3
Dorchester	44	Spartanburg	32
Edgefield	3	Sumter	37
Fairfield	5	Union	-
Florence	44	Williamsburg	5
Georgetown	10	York	41
Greenville	80		

Total South Carolina Cadets

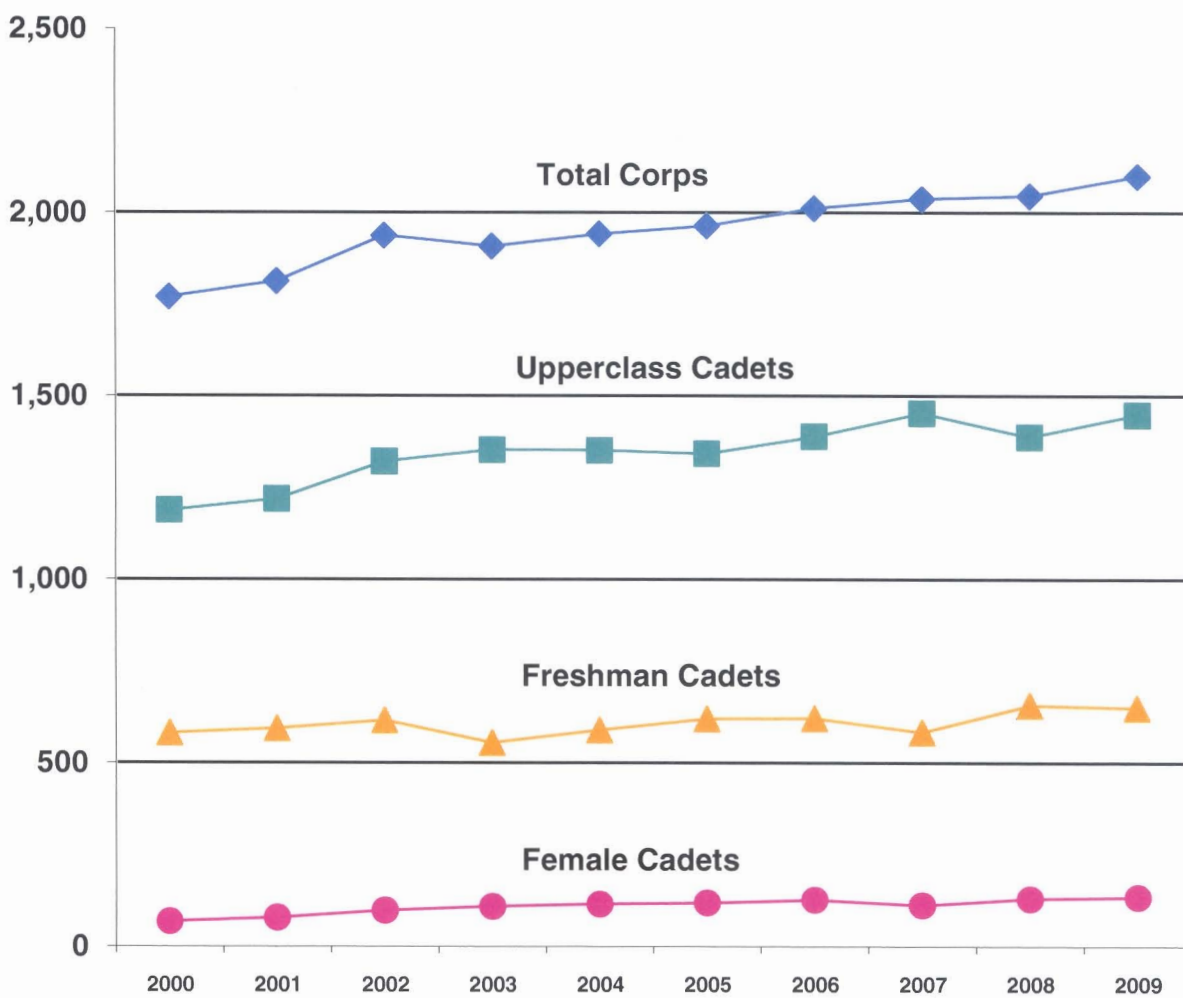
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THE CITADEL STUDENT BODY



	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>
Undergraduate FTE	2,544	2,566	2,589	2,629
Graduate & Professional Development FTE	468	449	457	457
Total headcount	3,386	3,302	3,283	3,313

CITADEL CADET CORPS SIZE



2009 CITADEL STUDENT FEES

	<u>In-State</u>	<u>Out-of-State</u>
<u>Tuition and Fees</u>		
Registration	\$ 25	\$ 25
Tuition	125	385
College fees	5,931	18,274
Technology fees	50	50
Athletic operation fees	1,947	1,947
Athletic facility fee	350	350
Subtotal	<u>8,428</u>	<u>21,031</u>
<u>Auxiliary Activity Fees</u>		
Room (Room \$1,210, Debt Service \$1,540 Technology \$50)	2,800	2,800
Board (20 meals/week)	2,950	2,950
Infirmery	534	534
Subtotal	<u>6,284</u>	<u>6,284</u>
Total of "comparable" fees	<u>\$ 14,712</u>	<u>\$ 27,315</u>
<u>Fees unique to The Citadel</u>		
Laundry & dry cleaning	\$ 555	\$ 555
<u>Deposits</u>		
Freshman	\$ 5,630	
Sophomore	\$ 1,750	
Junior	\$ 1,750	
Senior	\$ 1,750	

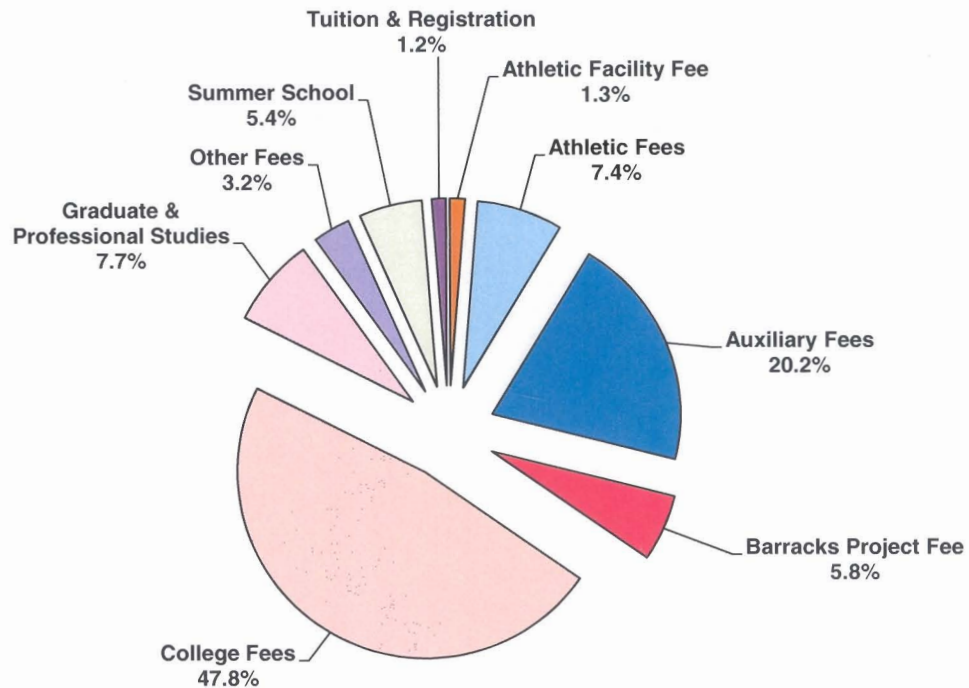
GRAND TOTAL ALL COSTS

<u>Class</u>	<u>In-State</u>	<u>Out-of-State</u>
Freshman	\$ 20,897	\$ 33,500
Sophomore	\$ 17,017	\$ 29,620
Junior	\$ 17,017	\$ 29,620
Senior	\$ 17,017	\$ 29,620

GRADUATE & PROFESSIONAL STUDIES & SUMMER SCHOOL

<u>Cost per credit hour</u>	<u>In-State</u>	<u>Out-of-State</u>
Graduate	\$ 325	\$ 534
Undergraduate	\$ 277	\$ 486
Professional Development	\$ 100	\$ 296

2009 CITADEL STUDENT FEES

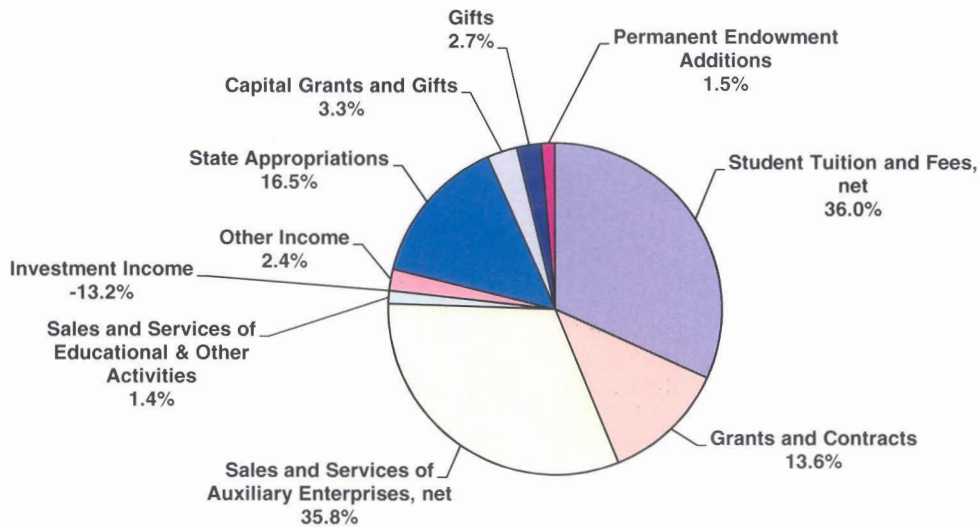


For the Year Ended June 30,

Student Fees

	2009	2008	Percent of total revenues	
			2009	2008
Athletic Facility Fee	\$ 723,284	\$ 696,610	1.3%	1.4%
Athletic Fees	4,023,636	3,433,160	7.4%	6.9%
Auxiliary Fees	11,067,664	9,854,435	20.2%	19.8%
Barracks Project Fee	3,157,630	3,082,029	5.8%	6.2%
College Fees	26,140,773	23,769,596	47.8%	47.7%
Graduate & Professional Studies	4,223,175	3,712,927	7.7%	7.5%
Other Fees	1,720,201	1,663,169	3.2%	3.3%
Summer School	2,970,864	2,956,019	5.4%	5.9%
Tuition & Registration	670,951	648,659	1.2%	1.3%
Total Fees	\$ 54,698,178	\$ 49,816,604	100.0%	100.0%

Citadel Revenues FY 2009

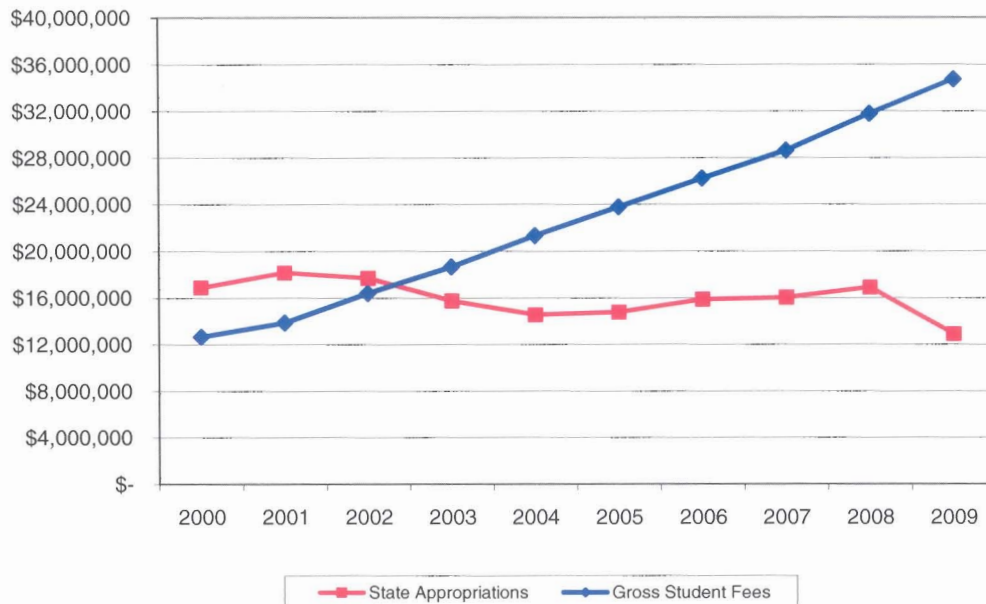


For the Year Ended June 30,

Revenues

	2009	2008	Percent of total revenues	
			2009	2008
Student tuition and fees, net	\$ 28,148,181	\$ 25,862,630	36.0%	28.3%
Grants and contracts	10,685,048	9,872,731	13.6%	10.8%
Sales and services of auxiliary enterprises, net	28,057,599	26,195,430	35.8%	28.6%
Sales and services of educational & other activities	1,122,541	883,381	1.4%	1.0%
Investment income	(10,349,322)	(3,196,418)	-13.2%	-3.5%
Other income	1,852,004	1,816,252	2.4%	2.0%
State appropriations	12,886,711	16,895,424	16.5%	18.5%
Capital grants and gifts	2,598,947	4,764,809	3.3%	5.2%
Gifts	2,110,294	3,301,900	2.7%	3.6%
Permanent endowment additions	1,150,280	5,038,903	1.5%	5.5%
Total revenue	<u>\$ 78,262,283</u>	<u>91,435,042</u>	<u>100.0%</u>	<u>100.0%</u>

State Appropriations and Gross Student Fees

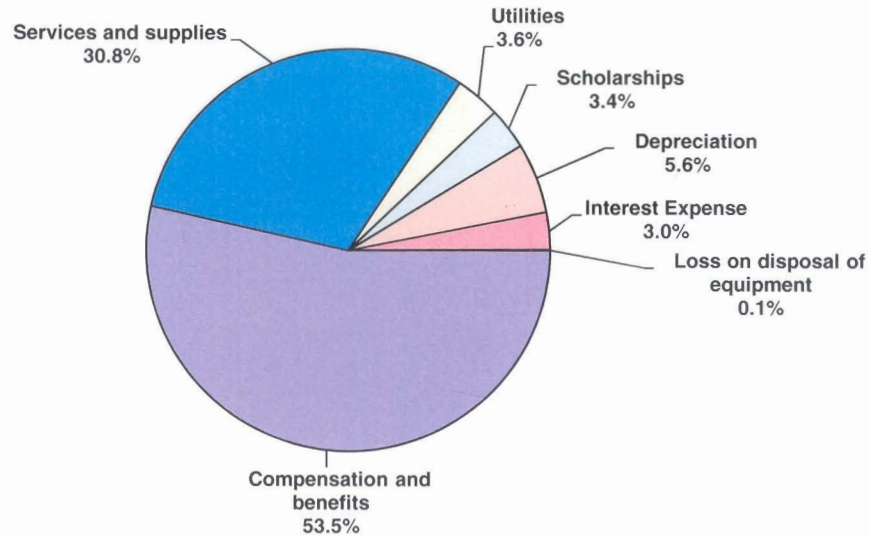


	State Appropriations	Gross Student Fees	FTE Students
2000	16,890,542	12,658,030	2,899
2001	18,159,672	13,863,523	2,920
2002	17,710,187	16,412,094	3,073
2003	15,754,606	18,683,098	3,072
2004	14,558,490	21,351,029	3,036
2005	14,780,853	23,795,129	2,972
2006	15,859,567	26,240,622	3,012
2007	16,025,367	28,624,953	3,015
2008	16,895,424	31,788,332	3,046
2009	12,886,711	34,747,515	3,087

Note: Gross student fees are total student fees charged to student accounts. Net student fees, as shown on the previous page, are gross student fees less scholarships applied to student accounts.

Citadel Expenses FY 2009

By Natural Classification

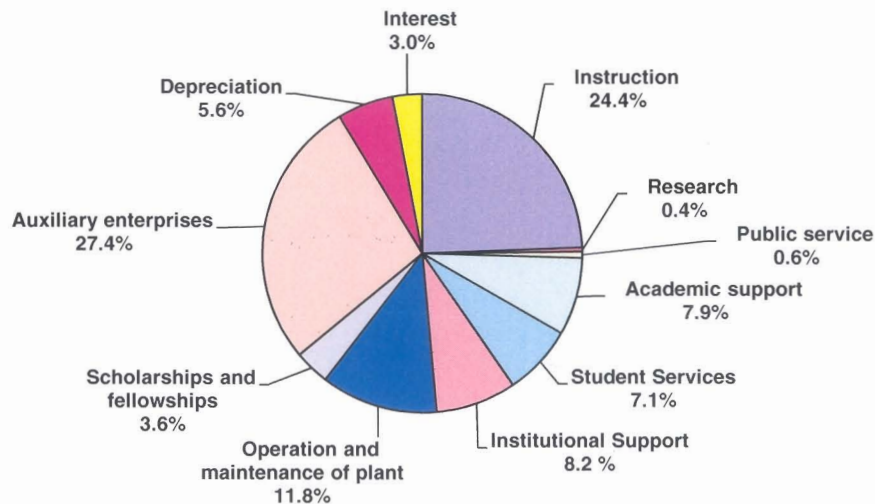


For the Year Ended June 30,

Expenses	2009	2008	Percent of total expenses	
			2009	2008
Compensation and benefits	\$ 48,344,412	\$ 46,395,803	53.5%	52.8%
Services and supplies	27,831,795	28,810,344	30.8%	32.8%
Utilities	3,254,225	3,278,393	3.6%	3.7%
Scholarships	3,030,675	2,706,411	3.4%	3.1%
Depreciation	5,089,229	4,570,981	5.6%	5.2%
Interest	2,715,541	2,173,387	3.0%	2.4%
Loss on disposal of equipment	68,872	-	0.1%	0.0%
Total expenses	<u>\$ 90,334,749</u>	<u>\$ 87,935,319</u>	<u>100.0%</u>	<u>100.0%</u>

Citadel Expenses FY 2009

By Function



Expenses	For the Year Ended June 30,			
	2009	2008	Percent of total expenses	
			2009	2008
Instruction	\$ 22,051,380	\$ 22,070,961	24.4%	25.1%
Research	367,765	345,925	0.4%	0.4%
Public service	574,124	832,785	0.6%	0.9%
Academic support	7,135,811	6,747,833	7.9%	7.7%
Student services	6,450,240	6,277,129	7.1%	7.1%
Institutional support	7,359,259	6,823,760	8.2%	7.8%
Operation and maintenance of plant	10,648,001	10,999,262	11.8%	12.5%
Scholarships and fellowships	3,199,160	2,728,754	3.6%	3.1%
Auxiliary enterprises	24,744,239	24,364,542	27.4%	27.7%
Depreciation	5,089,229	4,570,981	5.6%	5.2%
Interest	2,715,541	2,173,387	3.0%	2.5%
Total expenses	<u>\$ 90,334,749</u>	<u>\$ 87,935,319</u>	<u>100.0%</u>	<u>100.0%</u>

CITADEL FINANCIAL AID

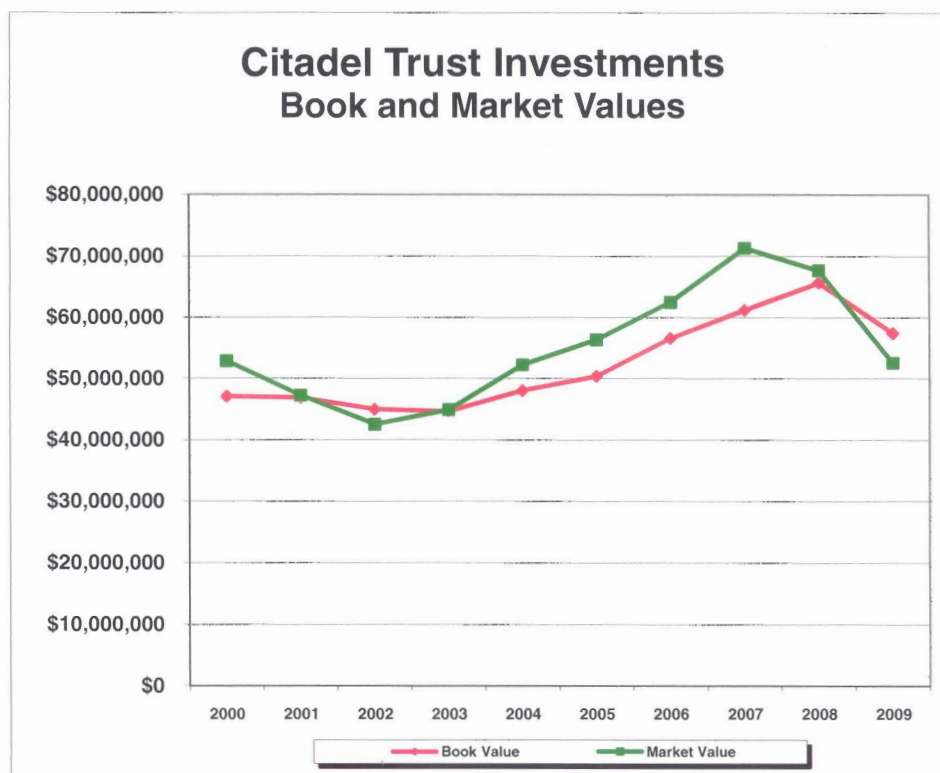
	2006-2007		2007-2008		2008-2009	
<u>FEDERAL PROGRAMS</u>	# Awards	Dollars	# Awards	Dollars	# Awards	Dollars
College Work Study	21	\$ 22,956	26	\$ 35,459	39	\$ 68,660
Federal Direct Parent Loans	639	8,703,189	518	7,256,317	466	7,070,933
Pell Grants	323	873,871	332	975,157	331	1,080,286
ACG Grants			72	51,835	61	42,480
SMART Grants			7	24,786	3	12,000
Perkins Loans	44	137,657	22	62,836	37	119,115
Federal Direct Student Loans	2,260	8,597,314	2,275	9,255,064	2,278	11,144,375
Supplemental Educational Opportunity Grants	121	95,415	132	94,111	115	82,663
Total - Federal Programs	3,408	\$ 18,430,402	3,384	\$ 17,755,565	3,330	\$ 19,620,512
<u>SOUTH CAROLINA PROGRAMS</u>						
Life, Palmetto and Need-Based Grants	446	\$ 1,908,807	398	\$ 1,844,423	231	\$ 2,169,481
<u>INSTITUTIONAL PROGRAMS</u>						
Scholarships	676	4,266,549	415	4,476,124	523	4,726,901
GRAND TOTAL - Federal, SC and Institutional Programs	4,530	24,605,758	4,197	24,076,112	4,084	26,516,894
<u>ATHLETIC GRANTS-IN-AID</u>						
Brigadier Foundation & others	238	\$ 2,344,354	223	\$ 2,613,699	237	\$ 2,654,935
Note: Athletic fee abatements are not included in the grant-in-aid dollars. The 2008-2009 amount of fee abatements is \$1,508,405.						
<u>ROTC SCHOLARSHIPS</u>						
Army	175	\$ 2,528,678	239	\$ 3,761,219	321	\$ 5,466,941
Navy/Marines	101	1,493,529	137	2,174,367	166	3,161,527
Air Force	45	513,414	55	537,180	57	591,442
Total	321	\$ 4,535,621	431	\$ 6,472,766	544	\$ 9,219,910
<u>INSTITUTIONAL SUPPORT FOR ROTC SCHOLARSHIPS</u>						
Institutional Grants	111	\$ 431,938	155	\$ 630,953	112	\$ 446,685

THE CITADEL TRUST, INCORPORATED

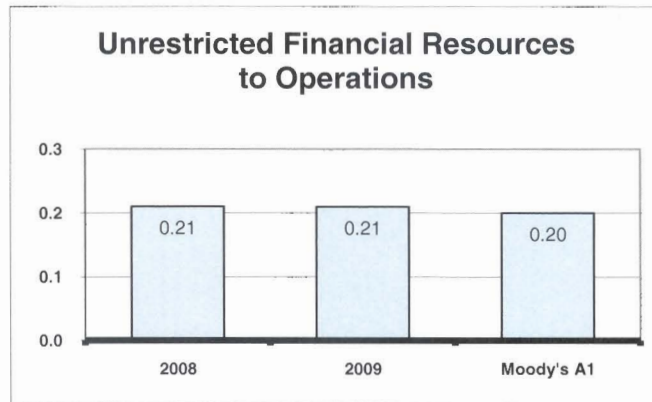
INVESTMENT SUMMARY

JUNE 30, 2009

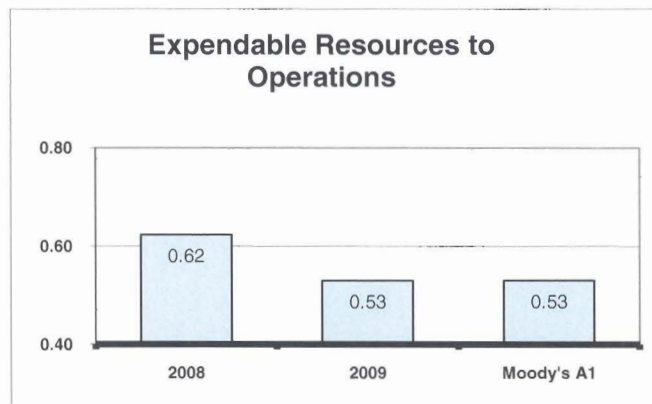
<u>INVESTMENT MANAGER</u>	<u>BOOK VALUE</u>	<u>MARKET VALUE</u>
American Funds Capital World Growth & Income	5,126,230	3,687,746
American Funds EuroPacific Growth	4,497,615	4,340,721
Cambiar Large Cap Value	4,773,632	4,246,216
Gateway Fund	2,040,349	1,751,906
Jennison	2,000,000	2,037,526
Lord Abbett & Co. Large Cap	4,529,943	3,966,808
Martin Capital Advisors	8,148,036	8,180,418
MDT All Cap Core Equity	1,486,112	1,469,756
Penn Capital	3,539,625	3,198,832
Renaissance Large Cap Growth	4,088,915	3,669,649
S&P 500 ETF	2,681,428	2,152,990
Sage	4,106,948	4,140,744
Sands Capital Management	3,975,495	3,746,728
Vanguard Emerging Markets ETF	1,352,054	798,119
Other	5,099,855	5,169,270
	<u>\$ 57,446,237</u>	<u>\$ 52,557,429</u>



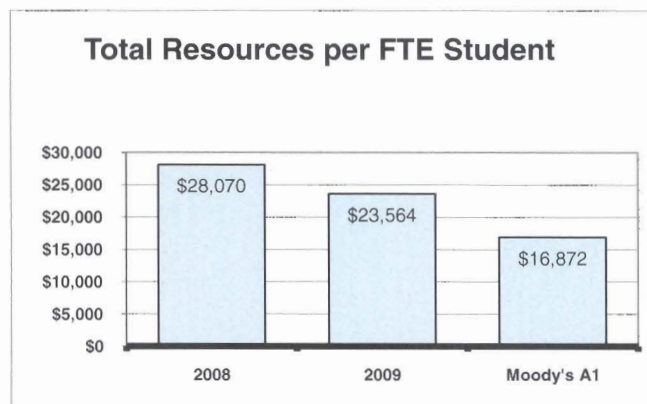
BALANCE SHEET RATIOS



This ratio measures the financial strength of the college by comparing unrestricted financial resources to total operating expenses. The Citadel's ratio remained stable in 2009 and is slightly higher than other similarly rated colleges.



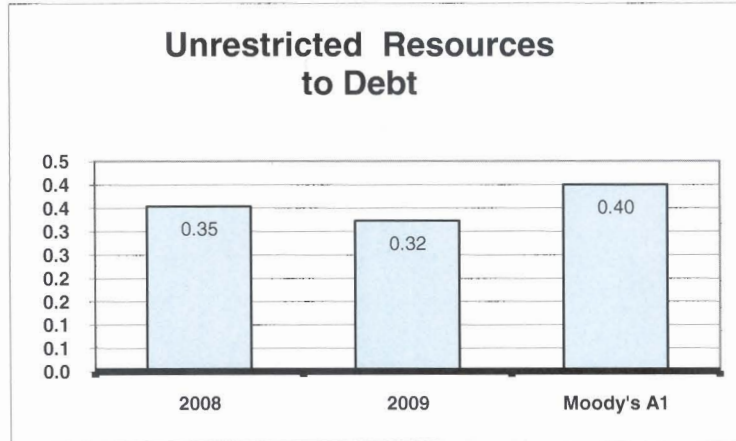
This ratio is a broader measure of financial strength as it compares total unrestricted and restricted expendable resources to total operating expenses. The Citadel's ratio weakened in 2009 but equals the Moody's A1 ratio.



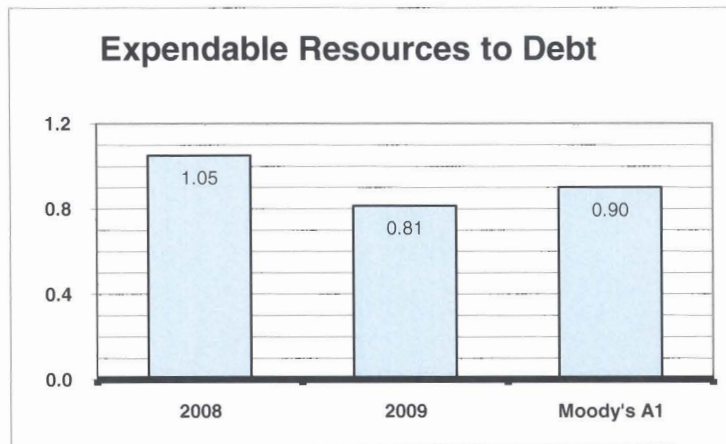
Total resources per FTE student has weakened over the last two years, but remains higher than similarly rated colleges.

Note: Moody's "A1" refers to Moody's "A1" bond rating. Moody's rates approximately 200 public colleges based on their underlying credit quality. Moody's upgraded the long-term rating for The Citadel during FY 2004, and reaffirmed this rating in June 2007. The improved bond rating was based on The Citadel's market strength, healthy financial resource levels, successful fundraising efforts, healthy operating performance, and limited borrowing plans.

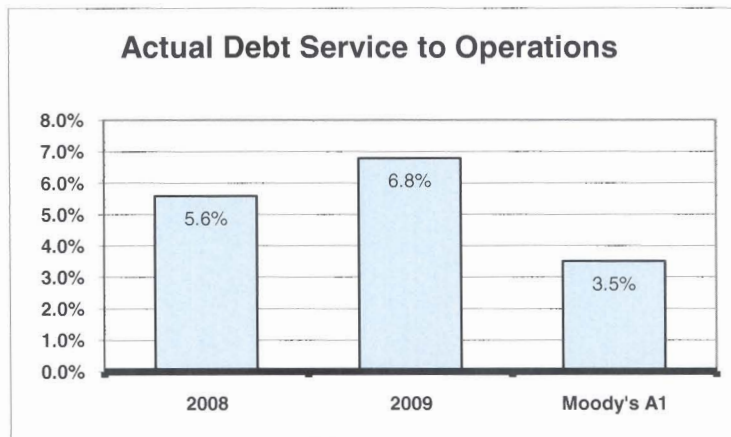
CAPITAL RATIOS



This ratio measures unrestricted resources divided by total debt. The Citadel's ratio weakened in 2009 as a result of additional borrowing, and remains lower than the Moody's "A1" median.

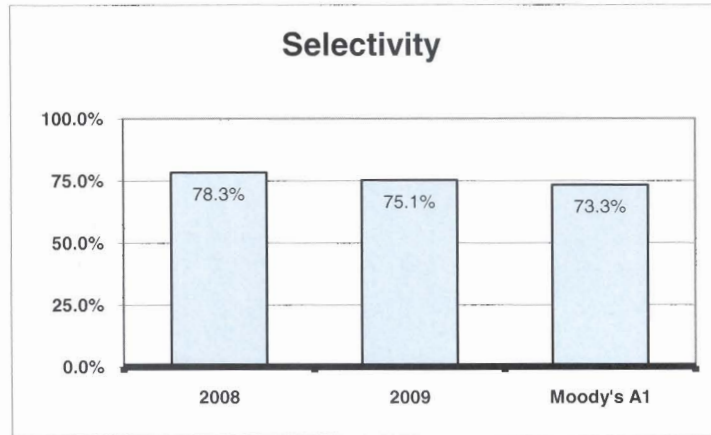


This ratio is a broader measure of debt coverage because it includes unrestricted and restricted expendable fund balances. This measure of debt coverage weakened in 2009 and is slightly lower than Moody's "A1" median.

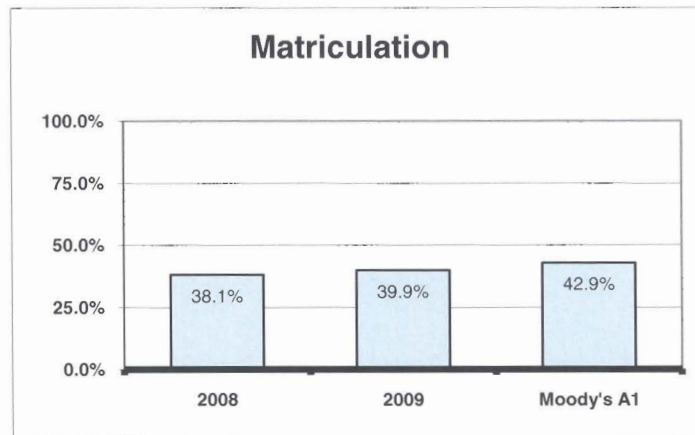


This percentage is calculated by dividing total annual debt service by total operating expenses. This percentage increased from 2008 to 2009 and is higher than similarly rated colleges.

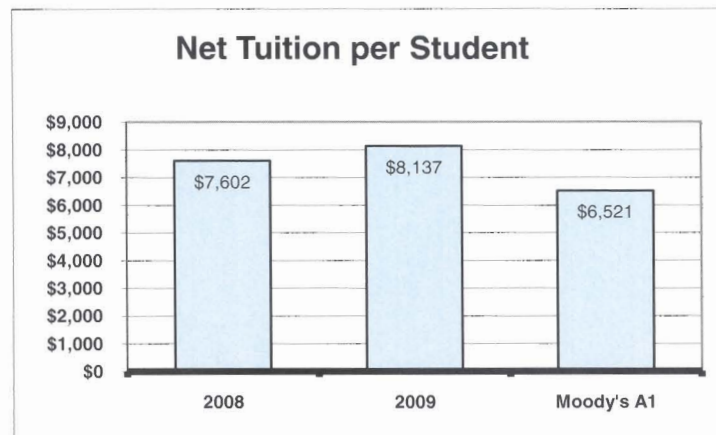
MARKET RATIOS



This ratio indicates the percentage of students who applied to The Citadel and were accepted. The Citadel is slightly less selective than other similarly rated colleges.

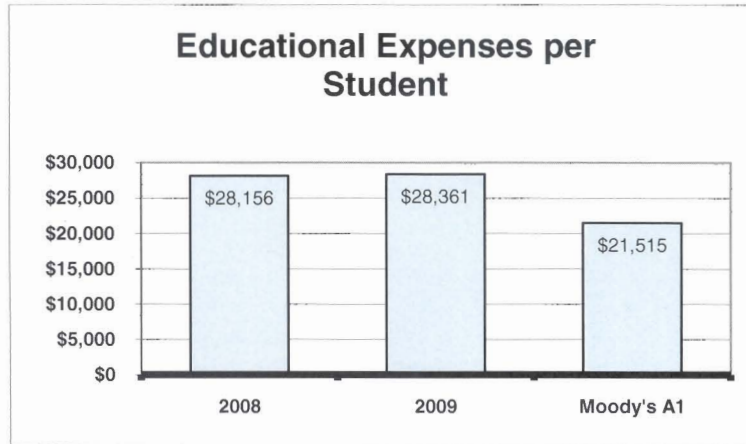


This ratio measures the percentage of accepted students who matriculate at The Citadel. The matriculation rate is lower than the Moody's A1 median.

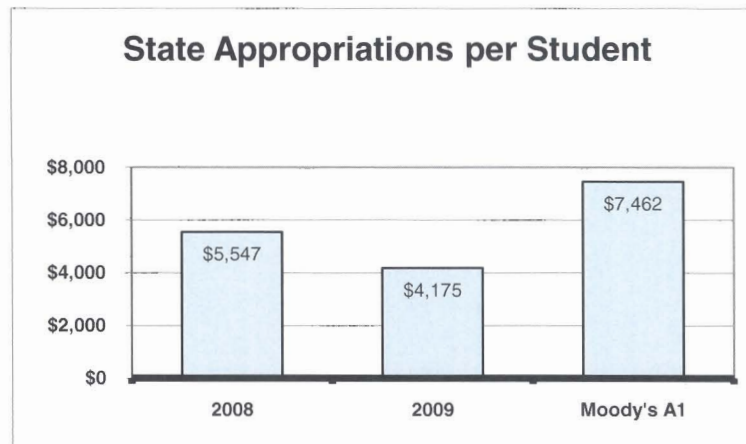


Net tuition per student is calculated by dividing total tuition, less scholarship aid, by total FTE students. Net tuition per student increased in 2009 and is higher than other similarly rated colleges.

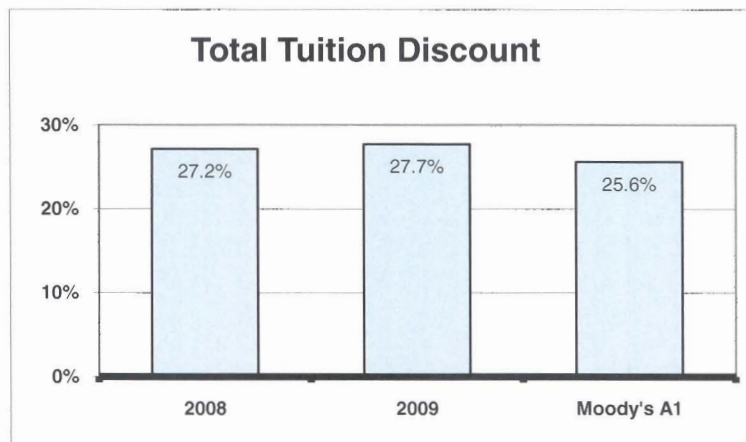
MARKET RATIOS



The Citadel's educational expenses per student are rising and are higher than the Moody's "A1" median.



State appropriations per student is less than similar rated colleges.



This percentage is calculated by dividing total scholarship aid by total tuition and fees.

REPAYMENT SCHEDULE FOR BONDS OUTSTANDING

As of June 30, 2009

Year	Institution			Revenue Bonds		Athletic Facility Bonds		Total Rev & Athletic Fac. Bonds	All bonds Total
	Principal	Interest	Total	Principal	Interest	Principal	Interest		
2010	180,000	74,006	254,006	1,820,000	1,062,756	1,495,255	1,242,149	5,620,160	5,874,166
2011	185,000	65,678	250,678	1,885,000	992,656	1,575,245	1,159,905	5,612,806	5,863,484
2012	200,000	56,900	256,900	1,965,000	913,438	1,663,628	1,073,031	5,615,097	5,871,997
2013	205,000	47,788	252,788	2,045,000	834,931	1,756,464	980,974	5,617,369	5,870,157
2014	215,000	38,338	253,338	2,120,000	763,313	1,853,812	883,469	5,620,594	5,873,932
2015	230,000	28,210	258,210	2,185,000	689,112	1,955,738	780,246	5,610,096	5,868,306
2016	235,000	17,397	252,397	2,275,000	609,906	1,319,948	678,782	4,883,636	5,136,033
2017	250,000	5,938	255,938	2,355,000	524,594	1,399,588	594,592	4,873,774	5,129,712
2018	-	-	-	645,000	430,394	575,674	505,205	2,156,273	2,156,273
2019	-	-	-	670,000	404,594	325,000	472,144	1,871,738	1,871,738
2020	-	-	-	700,000	377,794	345,000	448,842	1,871,636	1,871,636
2021	-	-	-	725,000	348,919	370,000	424,106	1,868,025	1,868,025
2022	-	-	-	755,000	318,106	400,000	397,577	1,870,683	1,870,683
2023	-	-	-	790,000	285,075	425,000	368,896	1,868,971	1,868,971
2024	-	-	-	825,000	249,525	455,000	338,424	1,867,949	1,867,949
2025	-	-	-	865,000	212,400	490,000	305,801	1,873,201	1,873,201
2026	-	-	-	900,000	173,475	525,000	270,668	1,869,143	1,869,143
2027	-	-	-	-	132,975	565,000	233,025	931,000	931,000
2028	-	-	-	-	132,975	605,000	192,514	930,489	930,489
2029	-	-	-	2,955,000	132,975	645,000	149,136	3,882,111	3,882,111
2030	-	-	-	-	-	695,000	102,890	797,890	797,890
2031	-	-	-	-	-	740,000	53,058	793,058	793,058
	\$ 1,700,000	\$ 334,255	\$ 2,034,255	\$ 26,480,000	\$ 9,589,913	\$ 20,180,352	\$ 11,655,434	\$ 67,905,699	\$ 69,939,954

BOND COVERAGE FISCAL YEAR 2009

State Institution Bonds 2001D		Revenue Bonds Series 1997 & 2005		Athletic Facility Bonds Series 2003, 2005, 2006		Athletic Facility Bonds Series 2007	
Pledged Fees		Pledged Net Revenues		Pledged Fees		Pledged Revenues	
Tuition	\$ 551,996	Barracks	\$ 4,350,659	Athletic Operating Fee	\$ 4,023,636	Skybox &	\$ 1,139,109
Registration	118,956	Cadet Store	821,177	Athletic Facility Fee	723,284	Club seats	
		Gift Shop	335,191				
		Dining Hall	295,671				
		ARMARK Investment	(20,026)				
		Faculty Quarters	243,914				
		Director - Auxiliary Services	(3,286)				
		Infirmary	194,451				
		Laundry/Dry Clean	202,586				
		Tailor Shop	86,546				
		Telephone	(213)				
		Parking	392,327				
Total	\$ 670,952		\$ 6,898,997		\$ 4,746,920		\$ 1,139,109
Debt Service							
Series 2001D	\$ 251,775	Series 1997	\$ 910,181	Series 2003	\$ 287,225	Series 2007	\$ 913,600
		Series 2005	1,969,775	Series 2005	739,613		
				Series 2006	622,356		
Total	\$ 251,775		\$ 2,879,956		\$ 1,649,194		\$ 913,600
Coverage	2.6649		2.3955		2.8783		1.2468

CITADEL FUNDING SOURCES

	<u>Balance 6/30/2008</u>	<u>Revenue</u>	<u>Expense</u>	<u>Transfers In (Out)</u>	<u>Balance 6/30/2009</u>
Maintenance Reserve Funds					
Barracks	\$ 519,305	\$ 31,310	\$ -	\$ 387,534	\$ 938,149
Cadet Store	360,208	39,670	-	(12,000)	387,878
Dining Hall	311,325	37,531	-	120,917	469,773
Faculty Quarters	80,979	3,622	-	115,436	200,037
Gift Shop	2,365	265	-	-	2,630
Infirmary	334,528	35,939	-	202,305	572,772
Laundry	152,214	22,751	-	279,899	454,864
Tailor Shop	178,211	19,933	-	-	198,144
E & G Maintenance Reserve	67,246	8,306	-	87,894	163,446
Parking Maintenance Reserve	232,927	185,445	(2,581)	(98,446)	317,345
Total	\$ 2,239,308	\$ 384,772	\$ (2,581)	\$ 1,083,539	\$ 3,705,038

	<u>Balance 6/30/2008</u>	<u>Revenue</u>	<u>Expense</u>	<u>Transfers In (Out)</u>	<u>Balance 6/30/2009</u>
Debt Related Funds					
Capital Projects Other (E&G & auxiliary projects)	\$ 147,023	6,037	-	-	\$ 153,060
Institutional Capital Projects (E&G projects)	\$ 381,377	51,327	-	445,507	\$ 878,211
Athletic Facility Funds	\$ 229,227	733,584	(43,164)	(912,118)	\$ 7,529
Sinking Funds for Debt Service					
Barracks	\$ 2,298,496	3,616,970	(250)	(2,683,555)	\$ 3,231,661
Athletics Debt Reserve (\$8.7 M issue)	\$ 144,352	18,513	-	-	\$ 162,865
Athletics Sinking Fund (\$6 M issue)	\$ 274,333	-	-	224,333	\$ 498,666
Other					
ARAMARK investment (1)	\$ 69,452	-	(21,604)	(47,848)	\$ -
ARAMARK investment (2)	\$ 1,518,806	290,274	(179,109)	(45,000)	\$ 1,584,971
Unrestricted Gifts	\$ 166,588	912,803	(667,126)	(349,706)	\$ 62,559
Aiken Florence Fund	\$ 389,491	(72,326)	(2,075)	-	\$ 315,090
Turner Fund	\$ 1,590,600	(84,350)	(17,384)	(513,622)	\$ 975,244

THE CITADEL
STATEMENT OF REVENUES, EXPENDITURES, AND TRANSFERS
FOR AUXILIARY ACTIVITIES
For the Year Ended June 30, 2009

	Athletics	Barracks	Cadet Store	Gift Shop	Dining Hall
Auxiliary activity fees	\$ 4,081,175	\$ 5,762,450	\$ -	\$ -	\$ 6,149,169
Sales and services	2,788,746	28,246	4,727,924	2,611,699	10,602
Other sources	54,505	489,464	27,394	2,919	45,580
Total revenues	6,924,426	6,280,160	4,755,318	2,614,618	6,205,351
Expenditures	(6,581,023)	(1,929,501)	(3,934,141)	(2,279,427)	(5,909,680)
Excess revenues over (under) expenditures	343,403	4,350,659	821,177	335,191	295,671
Transfers in (out)	(208,457)	(3,033,603)	(740,129)	(339,321)	(111,845)
Net increase (decrease) for the year	134,946	1,317,056	81,048	(4,130)	183,826
Fund balance at beginning of year	(1,612,755)	2,852,753	1,736,526	316,583	315,943
Fund balance at end of year	<u>\$ (1,477,809)</u>	<u>\$ 4,169,809</u>	<u>\$ 1,817,574</u>	<u>\$ 312,453</u>	<u>\$ 499,769</u>

Note: Fund balances include inventories for activities such as the Cadet Store, Gift Shop, and Tailor Shop.

Faculty Quarters	Infirmary	Laundry/ Dry Clean	Tailor Shop	Telephone	Total
\$ -	\$ 1,117,419	\$ 1,138,715	\$ -	\$ -	\$ 18,248,928
678,268	168,525	67,308	1,367,226	88	12,448,632
8,862	39,908	29,257	18,258	(301)	715,846
687,130	1,325,852	1,235,280	1,385,484	(213)	31,413,406
(443,216)	(1,131,400)	(1,032,695)	(1,298,938)	-	(24,540,021)
243,914	194,452	202,585	86,546	(213)	6,873,385
(126,213)	37,714	97,164	(26,579)	(88)	(4,451,357)
117,701	232,166	299,749	59,967	(301)	2,422,028
82,336	340,606	155,115	309,874	301	4,497,282
\$ 200,037	\$ 572,772	\$ 454,864	\$ 369,841	\$ -	\$ 6,919,310

SECTION II

Financial Statements And Accompanying Notes

INDEPENDENT AUDITORS' REPORT

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel), a department of the State of South Carolina, as of and for the year ended June 30, 2009, which collectively comprise The Citadel's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Citadel's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of The Citadel Trust (a blended component unit), or The Citadel Brigadier Foundation (a discretely presented component unit). The Citadel Trust's financial statements represent 24% of total assets, 35% of net assets, and 5% of total revenues of the business-type activities. The Citadel Brigadier Foundation's financial statements reflect 5% of total assets, 5% of net assets, and 18% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these blended and discretely presented components units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of The Citadel are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of South Carolina that is attributable to the transactions of The Citadel. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of The Citadel as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009 on our consideration of The Citadel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 3 - 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Citadel's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Elliott Davis, LLC

Greenwood, South Carolina
September 30, 2009

The Citadel
The Military College of South Carolina
Management's Discussion and Analysis
June 30, 2009

Overview of the Financial Statements and Financial Analysis

The Citadel presents its financial statements for fiscal year 2009. While audited financial statements for fiscal year 2008 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. This discussion focuses on the combined operations and financial positions of the College, defined for purposes of this discussion as both the primary institution — The Citadel, and its blended component unit — The Citadel Trust. The discussion excludes the College's non-governmental component units — The Citadel Foundation and The Citadel Brigadier Foundation.

Pervasive throughout this analysis is the global economic recession and its impact on The Citadel Trust (The Trust). The Trust had a terrible year as the nation and world dipped into an even deeper recession than the prior year. The depth of the recession, the various bailouts (such as the Troubled Asset Relief Program (TARP) for banks), and the bankruptcy of General Motors and Chrysler all had a tremendous negative impact on the financial markets. The recession's negative impact is reflected in the large negative changes in the Trust's position from the prior fiscal year. The Trust's managed investments had a negative return of 19.3% while the S&P 500 had a negative return of 24.5%, the Russell 1000 Value had a negative 29.0% return, and the EAFE index had a negative 31.0% return.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Colleges and Universities*. These financial statements focus on the financial condition of the College, the results of operations and cash flows of the College as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The College's net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (Assets minus Liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

The Citadel
The Military College of South Carolina

Management's Discussion and Analysis
June 30, 2009

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist solely of the College's permanent endowment funds that are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the College's unrestricted net assets have been designated for various academic and research programs and initiatives.

Condensed Summary of Net Assets (thousands of dollars)				
	2009	2008	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	\$ 42,231	\$ 44,582	\$ (2,351)	-5.27%
Capital assets, net	140,495	135,960	4,535	3.34%
Other assets	48,832	61,572	(12,740)	-20.69%
Total Assets	<u>231,558</u>	<u>242,114</u>	<u>(10,556)</u>	<u>-4.36%</u>
Liabilities:				
Current Liabilities	13,481	16,300	(2,819)	-17.29%
Noncurrent Liabilities	57,295	52,960	4,335	8.19%
Total Liabilities	<u>70,776</u>	<u>69,260</u>	<u>1,516</u>	<u>2.19%</u>
Net Assets:				
Invested in capital assets, net of related debt	88,040	87,354	686	0.79%
Restricted - nonexpendable	27,970	32,055	(4,085)	-12.74%
Restricted - expendable	26,424	35,448	(9,024)	-25.46%
Unrestricted	18,348	17,997	351	1.95%
Total Net Assets	<u>\$ 160,782</u>	<u>\$ 172,854</u>	<u>\$ (12,072)</u>	<u>-6.98%</u>

Assets – decrease of \$10.6 million

- The \$2.4 million decrease in current assets is composed of a \$4 million decrease in The Citadel Trust due to the world wide recession and its impact on the stock markets offset by a \$1.6 million increase in The Citadel's current assets. The \$1.6 million increase in Citadel current assets resulted from a \$1.3 million increase in current unrestricted cash primarily related to funds held for maintenance and repair for auxiliary enterprises, a \$.7 million increase in restricted cash related primarily to an increase in Institutional Capital Project funds (excess debt service), and a \$.1 million gift for Library renovation. These additions were offset by a \$1.0 million decrease in liabilities resulting from the timing of the transfer of Trust gifts to cover athletic scholarships. Over \$1 million was due to The Citadel at the end of the prior year, but in the current year the required transfer was completed before the end of the fiscal year.

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- Capital assets increased by approximately \$4.5 million, primarily due to construction costs for major projects that were completed early in the fiscal year: National Guard Readiness Center/Sky Box facility at Johnson Hagood Stadium (\$2.5 million) and Stevens Barracks Renovation (\$.9 million). In addition, the College embarked on a campus wide energy performance upgrade (\$3.6 million) and incurred \$2.5 million in equipment purchases, primarily related to software and computers needed in implementing the new administrative software system (Banner). These increases were offset by \$5.1 million of depreciation.
- The \$12.7 million decrease in other assets is composed of an \$11.1 million decrease in The Citadel Trust as a result of the massive worldwide recession and a \$1.6 million decrease in Citadel other assets. The \$1.6 million decrease in Citadel other assets were principally due to using cash and bond proceeds to fund the completion of the Readiness Center.

Liabilities – increase of \$1.5 million

- The \$2.8 million decrease in current liabilities is composed of a \$1 million decrease in Citadel Trust current liabilities and a \$.7 million decrease in Citadel current liabilities.
 - The Trust \$1 million reduction in current liabilities resulted from the timing of the Trust transfer of gifts to cover athletic scholarships. In the prior year this transfer was not completed prior to the end of the year, whereas in the current year the transfer was completed by June 30th.
 - Citadel accounts payable decreased by \$2.9 million as major construction projects such as Readiness Center and Stevens Barracks Renovation were completed during the current year. This \$2.9 million decrease was offset by a \$.3 million increase in current bonds payable for a full year's debt service on the sky box facility and \$.7 million increase in current notes payable for the new debt service on the energy performance and administrative software notes payable.
- The \$4.3 million increase in noncurrent liabilities is primarily due to changes in noncurrent bonds and notes payable. The noncurrent portion of notes payable increased by \$8.3 million as The Citadel borrowed to fund the administrative software system and the energy performance contract. This increase was partially offset by a \$3.4 million decrease in the noncurrent portion of bonds payable as bond principal payments were made during the current year.

Net Assets – decrease of \$12.1 million

- Capital assets, net of related debt, increased \$.7 million due to the increase in capital assets noted previously. These increases were partially offset by increases in notes payable.
- Restricted – non expendable assets decreased by \$4.1 million. This decrease is primarily related to a \$5.6 million decrease in Trust assets due to the impact of the global recession. This decrease was partially offset by The Citadel's increase in restricted cash primarily related to excess debt service funds.
- Restricted – expendable assets decreased by \$9 million. This decrease is primarily due to the \$8 million decrease in Citadel Trust restricted expendable assets caused by the recession. Additionally, Citadel current liabilities increased by \$1 million due to increases in current liabilities for the administrative software system and the energy performance project.

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- Unrestricted net assets increased by \$.4 million. This increase is composed of a \$.6 million decrease in Citadel Trust unrestricted net assets due to negative returns on invested unrestricted funds and a \$.0 million increase in Citadel unrestricted net assets. The increase in Citadel unrestricted net assets is attributable to an operating fund surplus created by fee increases and tight control of expenditures as the College prepared for another year of the recession and continuing State appropriation cuts.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public College's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues and are reported after "Income before other revenues expenses, gains or losses."

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Condensed Summary of Revenues, Expenses and Changes in Net Assets (thousands of dollars)				
	2009	2008	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	\$ 28,148	\$ 25,863	\$ 2,285	8.84%
Sales and services	29,180	27,079	2,101	7.76%
Grants and contracts	4,442	3,828	614	16.04%
Investment loss	(11,574)	(4,413)	(7,161)	-162.27%
Other operating revenues	1,624	1,591	33	2.07%
Total Operating Revenues	51,820	53,948	(2,128)	-3.94%
State appropriations	12,887	16,895	(4,008)	-23.72%
Grants	6,243	6,044	199	3.29%
Gifts	2,137	3,302	(1,165)	-35.28%
Investment income	1,225	1,216	9	0.74%
Other nonoperating revenues/expenses	159	225	(66)	-29.33%
Total Nonoperating Revenues	22,651	27,682	(5,031)	-18.17%
Total Revenues	74,471	81,630	(7,159)	-8.77%
Expenses:				
Compensation and employee benefits	48,344	46,396	1,948	4.20%
Services and supplies	27,832	28,810	(978)	-3.39%
Utilities	3,254	3,278	(24)	-0.73%
Depreciation	5,089	4,571	518	11.33%
Scholarships and fellowships	3,031	2,707	324	11.97%
Total operating expenses	87,550	85,762	1,788	2.08%
Interest expense	2,715	2,173	542	24.94%
Total Nonoperating Expenses	2,715	2,173	542	24.94%
Total Expenses	90,265	87,935	2,330	2.65%
Loss before capital contributions, additions to permanent endowments and transfers	(15,794)	(6,305)	(9,489)	-150.50%
Capital Contributions, Additions to Permanent Endowments, and Transfers:				
Capital grants and appropriations	2,572	4,765	(2,193)	-46.02%
Permanent endowment additions	1,150	5,039	(3,889)	-77.18%
Total capital contributions, additions to permanent endowments and transfers	3,722	9,804	(6,082)	-62.04%
Change in Net Assets	(12,072)	3,499	(15,571)	-445.01%
Net Assets, Beginning	172,854	169,355	3,499	2.07%
Net Assets, Ending	\$ 160,782	\$ 172,854	\$ (12,072)	-6.98%

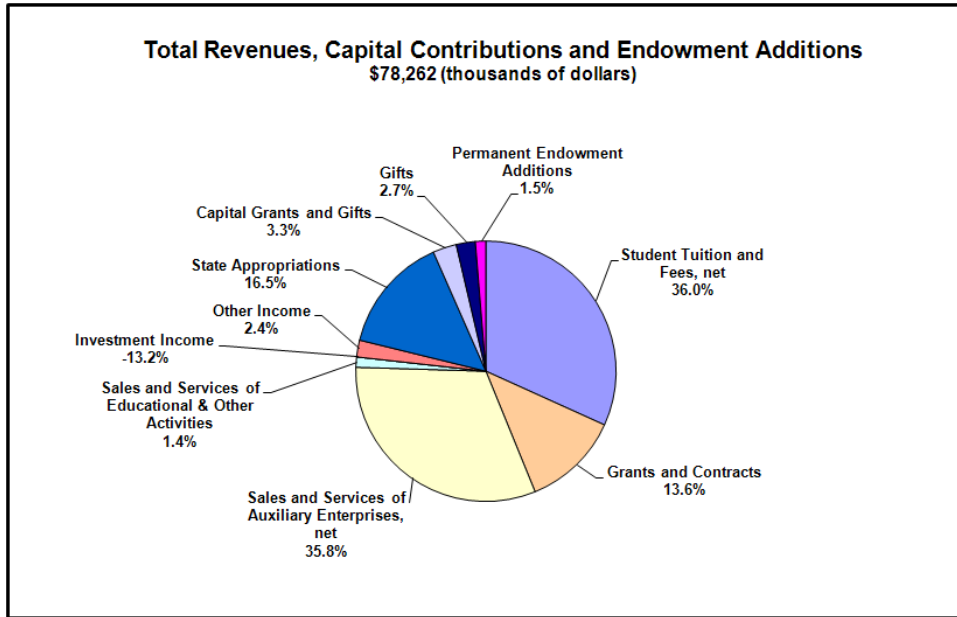
Total Revenues – decrease of \$7.1 million

- Operating revenues decreased by \$2.1 million. This decrease is composed of a \$7.1 million decrease in Citadel Trust operating income caused by the recession and a \$5 million increase in Citadel operating income. Citadel operating revenues increased primarily because the College raised its overall cost of attendance by 8.0% thereby generating increased revenues of \$4.3 million. The overall cost of attendance is defined as all tuition and fees plus deposits required for uniforms, books, and other cadet necessities. Grants and contracts increased by \$0.5 million, primarily attributable to increased State funding for State scholarship programs.
- Nonoperating revenues decreased by \$5.0 million. This decrease is composed of a \$4.0 million decrease in State general fund appropriations as the State responded to the recession, and a \$1 million decrease in gift giving—also related to the recession.

The Citadel

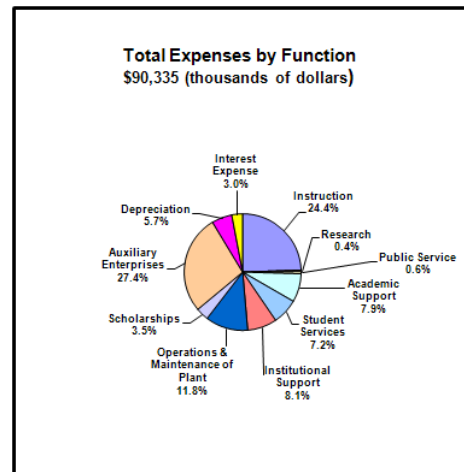
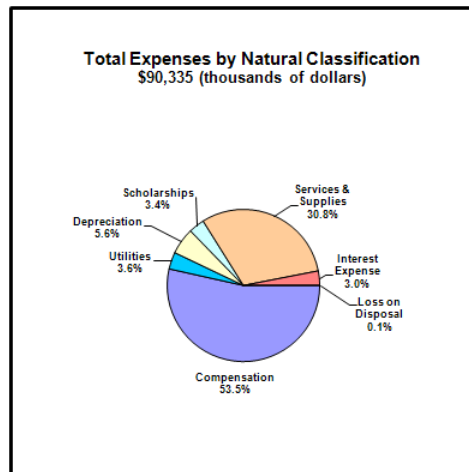
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Total Expenses – increase of \$2.3 million

- Operating expenses increased by \$1.8 million. Compensation expense increased by \$1.9 million due to the annualization of prior year pay raises. In addition, depreciation increased by \$.5 million as the new stadium complex was completed and depreciation initiated, and scholarships increased by \$.3 million due to the increase in the cost of attendance. These increases were partially offset by a decrease in spending for supplies and services as the College reacted to the recession and State budget cuts.
- Interest expense increased \$.5 million as the College borrowed to fund the administrative software system and the energy performance contract.



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Capital Contributions and Additions to Permanent Endowments – decrease of \$6.1 million

- Capital grants and appropriations decreased by \$2.2 million. The State did not appropriate capital and deferred maintenance funds due to the economic recession and no major capital grants were received during the year.
- Contributions to permanent endowments decreased by \$3.9 million, perhaps due to the effect of the worldwide recession.

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, at June 30, 2009 and June 30, 2008 were as follows:

Capital Assets (net of accumulated depreciation)				
	<u>2009</u>	<u>2008</u>	<u>Increase/ (decrease)</u>	<u>Percent Change</u>
Capital Assets:				
Land	\$ 4,827,669	\$ 4,800,669	\$ 27,000	0.56%
Construction in Progress	3,818,817	15,390,376	(11,571,559)	-75.19%
Fine Arts	357,120	350,720	6,400	1.82%
Land improvements	3,896,299	4,491,008	(594,709)	-13.24%
Buildings and improvements	123,389,156	108,474,610	14,914,546	13.75%
Equipment	2,037,625	1,517,109	520,516	34.31%
Vehicles	104,216	106,838	(2,622)	-2.45%
Intangibles	2,064,089	829,381	1,234,708	148.87%
Total	<u>\$ 140,494,991</u>	<u>\$ 135,960,711</u>	<u>\$ 4,534,280</u>	3.33%

The increase in the rate of change in capital assets slowed in the current year as the stadium facility and Stevens Barracks improvements were completed. With the recession, the College did not initiate any major construction projects in fiscal year 2009, though plans are being considered now to use the federal stimulus funds for one time capital activities. The only major capital project underway at the close of the current year was the energy performance infrastructure upgrades (energy project).

The College borrowed \$4.75 million from the State Master Lease program in fiscal year 2009 to fund the energy project. The goal of the project is to install energy upgrades to save energy and better manage its use on campus. The note is interest only for the first 12 months to give time for the energy savings to reduce energy costs to pay the debt service. The College also finalized the \$4.32 million note to fund the administrative software system that the Board of Visitors approved in fiscal year 2008. This note is also interest only for the first year.

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Economic Outlook

The economic position of The Citadel is closely tied to that of the State of South Carolina. South Carolina is currently in the midst of the nationwide recession. The State issued 4 mid-year budget cuts during FY09. The State cut The Citadel \$3.9 million or 24.19% of its appropriation. In September 2009 the State Budget and Control Board issued a 4% cut for fiscal year 2010. The economic outlook for the State is not good. The College experienced robust enrollment during fiscal year 2009 and again in fiscal year 2010. The enrollment is carrying the College through the recession and management is exploring a myriad of additional initiatives to increase non-cadet enrollment. Cadet enrollment is limited by barracks and dining hall limitations whereas those constraints do not impact non-cadet enrollment.

In August 2009, The Citadel was named the No. 1 best value among masters degree granting institutions in the South by [U.S. News & World Report](#). In the category of institutions that award up to a masters degree, The Citadel was the only public College in South Carolina and one of two public institutions in the nation in the "Great Schools, Great prices" category. The ranking in other categories was No. 2 best public university offering up to a master's degree in the South, No 5 among all masters degree – granting college and universities in the South, both public and private, and No. 26 best undergraduate engineering programs.

More Information

This financial report is designed to provide a general overview of The Citadel's finances and demonstrate The Citadel's accountability for the money it receives. Any questions about this report or requests for information may be addressed to the Director of Financial Services, The Citadel, 171 Moultrie Street, Charleston, SC 29409.

THE CITADEL
The Military College of South Carolina
Statement of Net Assets
June 30, 2009

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 15,676,301	\$ 424,962	\$ 16,101,263
Investments	-	1,336,325	1,336,325
Restricted Assets - Current			
Cash and cash equivalents	5,948,557	987,572	6,936,129
Investments	-	6,935,353	6,935,353
Contributions receivable, net	90,179	153,721	243,900
Student loans receivable, net	-	83,136	83,136
Accounts receivable, net	8,011,507	173,863	8,185,370
Due from component units	30,169	-	30,169
Contributions receivable, net	-	30,601	30,601
Inventories	1,762,272	-	1,762,272
Prepaid expenses	581,887	4,825	586,712
Total current assets	<u>32,100,872</u>	<u>10,130,358</u>	<u>42,231,230</u>
Noncurrent Assets			
Investments	-	3,463,115	3,463,115
Contributions receivable, net	-	11,401	11,401
Cash surrender value of life insurance	-	10,959	10,959
Restricted Assets - Noncurrent			
Cash and cash equivalents	4,433,422	2,876,731	7,310,153
Investments	-	36,948,263	36,948,263
Contributions receivable, net	212,162	112,978	325,140
Student loans receivable, net	648,361	57,288	705,649
Cash surrender value of life insurance	-	56,995	56,995
Capital assets not being depreciated	6,821,477	2,182,129	9,003,606
Capital assets, net of accumulated depreciation	<u>131,491,385</u>	<u>-</u>	<u>131,491,385</u>
Total noncurrent assets	<u>143,606,807</u>	<u>45,719,859</u>	<u>189,326,666</u>
Total assets	<u>\$ 175,707,679</u>	<u>\$ 55,850,217</u>	<u>\$ 231,557,896</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 2,111,080	\$ 6,755	\$ 2,117,835
Accrued payroll and related liabilities	1,785,866	5,854	1,791,720
Accrued compensated absences and related liabilities	1,413,451	-	1,413,451
Accrued interest payable	781,788	-	781,788
Deferred revenues	2,070,174	5,000	2,075,174
Bonds payable	3,372,520	-	3,372,520
Capital leases payable	15,997	-	15,997
Notes payable	735,503	-	735,503
Deposits	1,169,179	-	1,169,179
Annuities payable	-	8,190	8,190
Total current liabilities	<u>13,455,558</u>	<u>25,799</u>	<u>13,481,357</u>
Noncurrent Liabilities			
Federal loan funds	490,655	-	490,655
Accrued compensated absences and related liabilities	1,151,270	-	1,151,270
Deposits	581,001	-	581,001
Deferred revenues	2,220,000	-	2,220,000
Bonds payable	44,387,478	-	44,387,478
Capital leases payable	51,574	-	51,574
Notes payable	8,334,497	-	8,334,497
Annuities payable	-	16,685	16,685
Funds held for others	<u>61,339</u>	<u>-</u>	<u>61,339</u>
Total noncurrent liabilities	<u>57,277,814</u>	<u>16,685</u>	<u>57,294,499</u>
Total liabilities	<u>\$ 70,733,372</u>	<u>\$ 42,484</u>	<u>\$ 70,775,856</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 85,857,431	\$ 2,182,129	\$ 88,039,560
Restricted for Nonexpendable:			
Scholarships	-	23,097,255	23,097,255
Other	-	3,274,831	3,274,831
Annuity	-	51,586	51,586
Restricted for Expendable:			
Scholarships, research, instruction and other	2,452,647	19,413,921	21,866,568
Loans	207,759	1,093,816	1,301,575
Capital projects	2,771,809	1,401,409	4,173,218
Debt service	629,040	-	629,040
Unrestricted	<u>13,055,621</u>	<u>5,292,786</u>	<u>18,348,407</u>
Total net assets	<u>\$ 104,974,307</u>	<u>\$ 55,807,733</u>	<u>\$ 160,782,040</u>

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Statement of Revenues, Expenses, and Changes in Net Assets

For the year ended June 30, 2009

	The Citadel	The Citadel Trust	Total
REVENUES			
Operating Revenues (Losses)			
Student tuition and fees (net of scholarship allowances of \$6,599,334)	\$ 28,148,181	\$ -	\$ 28,148,181
Federal grants and contracts	1,606,806	-	1,606,806
State grants and contracts	2,542,760	-	2,542,760
Nongovernmental grants and contracts	292,237	-	292,237
Sales and services of educational and other activities	1,122,541	-	1,122,541
Sales and services of auxiliary enterprises pledged for revenue bonds (net of scholarship allowances of \$3,603,250)	25,268,852	-	25,268,852
Sales and services of auxiliary enterprises - not pledged	2,788,747	-	2,788,747
Other fees	978,450	-	978,450
Investment loss (including investment expenses of \$231,334)	-	(12,861,147)	(12,861,147)
Endowment income	-	1,287,260	1,287,260
Other operating revenues	645,704	-	645,704
Total operating revenues	63,394,278	(11,573,887)	51,820,391
EXPENSES			
Operating Expenses			
Compensation and employee benefits	48,238,536	105,876	48,344,412
Services and supplies	27,781,874	49,921	27,831,795
Utilities	3,254,225	-	3,254,225
Depreciation expense	5,089,229	-	5,089,229
Scholarships and fellowships	3,030,675	-	3,030,675
Total operating expenses	87,394,539	155,797	87,550,336
Operating loss	(24,000,261)	(11,729,684)	(35,729,945)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	12,886,711	-	12,886,711
State grants and contracts	53,020	-	53,020
Nongovernmental grants	6,037,078	170,452	6,207,530
Gifts	357,312	1,752,982	2,110,294
Investment income	1,224,565	-	1,224,565
Interest on capital asset-related debt	(2,715,541)	-	(2,715,541)
Loss on disposal of capital assets	(68,872)	-	(68,872)
Refunds to grantors	(17,305)	-	(17,305)
Other nonoperating revenues	72,000	155,850	227,850
Net nonoperating revenues	17,828,968	2,079,284	19,908,252
Loss before other revenues, expenses, gains or losses	(6,171,293)	(9,650,400)	(15,821,693)
State capital appropriations	624,731	-	624,731
Capital grants and gifts	1,947,216	27,000	1,974,216
Additions to permanent endowments	-	1,150,280	1,150,280
Transfers to/from The Citadel Trust	5,636,167	(5,636,167)	-
Total other revenues, expenses, gains or losses	8,208,114	(4,458,887)	3,749,227
Increase (decrease) in net assets	2,036,821	(14,109,287)	(12,072,466)
NET ASSETS			
Net assets-beginning of year	102,937,486	69,917,020	172,854,506
Net assets-end of year	\$ 104,974,307	\$ 55,807,733	\$ 160,782,040

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows
For the year ended June 30, 2009

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Student tuition and fees	\$ 28,543,208	\$ -	\$ 28,543,208
Grants and contracts	4,449,233	-	4,449,233
Sales and services of educational and other activities	1,190,399	-	1,190,399
Sales and services of auxiliary enterprises	27,643,275	-	27,643,275
Other operating receipts	651,596	-	651,596
Payments to employees for salaries and benefits	(47,526,232)	(49,921)	(47,576,153)
Payments to suppliers	(29,050,358)	(105,876)	(29,156,234)
Payments for utilities	(3,265,975)	-	(3,265,975)
Payments to students for scholarships and fellowships	(3,030,675)	-	(3,030,675)
Loans issued to students	(109,810)	-	(109,810)
Collection of loans to students	71,951	-	71,951
Funds held for others	(26,200)	-	(26,200)
Student direct lending receipts	18,252,035	-	18,252,035
Student direct lending disbursements	(18,300,912)	-	(18,300,912)
Net cash used by operating activities	<u>(20,508,465)</u>	<u>(155,797)</u>	<u>(20,664,262)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	12,654,323	-	12,654,323
Gifts and grants for other than capital purposes	6,569,520	3,153,443	9,722,963
Other non-operating revenues/expenses	72,000	157,946	229,946
Transfers from (to) component unit	<u>6,675,582</u>	<u>(6,675,582)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>25,971,425</u>	<u>(3,364,193)</u>	<u>22,607,232</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	9,134,387	-	9,134,387
State capital appropriations	1,446,435	-	1,446,435
Capital grants and gifts received	1,935,495	-	1,935,495
Proceeds from sale of capital assets	43,440	-	43,440
Purchases of capital assets	(12,239,908)	-	(12,239,908)
Principal paid on capital debt and leases	(3,114,970)	-	(3,114,970)
Interest paid on capital related debt	<u>(2,760,253)</u>	<u>-</u>	<u>(2,760,253)</u>
Net cash used by capital and related financing activities	<u>(5,555,374)</u>	<u>-</u>	<u>(5,555,374)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	33,277,874	33,277,874
Interest and dividends on investments	1,250,680	1,370,092	2,620,772
Purchase of investments	<u>-</u>	<u>(34,262,529)</u>	<u>(34,262,529)</u>
Net cash provided by investing activities	<u>1,250,680</u>	<u>385,437</u>	<u>1,636,117</u>
Net change in cash	1,158,266	(3,134,553)	(1,976,287)
Cash and cash equivalents - beginning of year	<u>24,900,014</u>	<u>7,423,818</u>	<u>32,323,832</u>
Cash and cash equivalents - end of year	<u>\$ 26,058,280</u>	<u>\$ 4,289,265</u>	<u>\$ 30,347,545</u>
Reconciliation of net operating revenues (expense) to net cash used by operating activities:			
Operating loss	\$ (24,000,261)	\$ (11,729,684)	\$ (35,729,945)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation expense	5,089,229	-	5,089,229
Interest and dividends on investments	-	(1,327,310)	(1,327,310)
Realized and unrealized gains and losses on investments	-	12,901,197	12,901,197
Funds held for others	(75,077)	-	(75,077)
Changes in assets and liabilities			
Accounts receivable, net	(576,610)	-	(576,610)
Inventories	(47,782)	-	(47,782)
Student loans receivable	(42,512)	-	(42,512)
Prepaid expenses	(91,720)	-	(91,720)
Accounts payable and accrued expenses	(485,653)	-	(485,653)
Accrued salaries and related expenses	65,140	-	65,140
Accrued compensated absences and related liabilities	104,521	-	104,521
Deferred revenue	(310,059)	-	(310,059)
Student and other deposits	<u>(137,681)</u>	<u>-</u>	<u>(137,681)</u>
Net cash used by operating activities	<u>\$ (20,508,465)</u>	<u>\$ (155,797)</u>	<u>\$ (20,664,262)</u>

(continued)

THE CITADEL
The Military College of South Carolina
Statement of Cash Flows (continued)
For the year ended June 30, 2009

	<u>The Citadel</u>	<u>The Citadel Trust</u>	<u>Total</u>
Non-cash transactions			
Increase (decrease) in fair value of investments	\$ 400,768	\$ (6,833,628)	\$ (6,432,860)
Capital assets acquired through gifts	\$ 11,721	\$ 27,000	\$ 38,721
Capital assets acquired through capital leases	\$ 64,387	\$ -	\$ 64,387
Disposal of capital assets	\$ 12,101	\$ -	\$ 12,101
Reconciliation of Cash and Cash Equivalent Balances:			
Current assets			
Cash and cash equivalents	\$ 15,676,301	\$ 424,962	\$ 16,101,263
Restricted cash and cash equivalents	5,948,557	987,572	6,936,129
Noncurrent assets			
Restricted cash and cash equivalents	<u>4,433,422</u>	<u>2,876,731</u>	<u>7,310,153</u>
Total cash and cash equivalents	<u>\$ 26,058,280</u>	<u>\$ 4,289,265</u>	<u>\$ 30,347,545</u>

See accompanying Notes to the Financial Statements

THE CITADEL**The Military College of South Carolina****Non-Governmental Discretely Presented Component Units****Statements of Financial Position**

	The Citadel Foundation December 31, 2008	The Citadel Brigadier Foundation June 30, 2009
ASSETS		
Cash and cash equivalents	\$ 4,520,312	\$ 739,312
Unconditional promises to give/receivable, net	9,246,531	623,500
Interest receivable	4,475	-
Prepaid expenses	67,486	-
Long-term investments (at fair value)	-	5,630,413
Long-term investments (at equity)	118,641,677	-
Investments related to split-interest agreements (at fair value)	112,899	-
Investments related to split-interest agreements (at equity)	2,811,573	-
Notes receivable	-	20,000
Other investments	5,933	-
Cash value of life insurance	559,633	288,160
Office equipment and improvements (net of accumulated depreciation)	74,257	34,332
Land and improvements held for investment	457,456	-
Other assets	102,954	-
Total assets	\$ 136,605,186	\$ 7,335,717
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 219,867	\$ 16,478
Compensated absences payable	-	30,645
Grants payable - The Citadel	3,037,791	-
Notes payable	39,981	-
Annuities and life income funds payable	1,421,991	-
Charitable gift annuities	1,412,791	-
Total liabilities	6,132,421	47,123
Net Assets		
Unrestricted	77,854,098	243,977
Temporarily restricted	23,266,060	1,269,491
Permanently restricted	29,352,607	5,775,126
Total net assets	130,472,765	7,288,594
Total Liabilities and Net Assets	\$ 136,605,186	\$ 7,335,717

See accompanying Notes to the Financial Statements

THE CITADEL

The Military College of South Carolina

Non-Governmental Discretely Presented Component Units

Statements of Activities

	Citadel Foundation Year Ended December 31, 2008	Citadel Brigadier Foundation Year Ended June 30, 2009
REVENUES, GAINS AND OTHER SUPPORT		
Unrestricted		
Contributions and membership revenue	\$ 486,202	\$ 936,223
Investment income	242,004	-
Net unrealized and realized gains (losses) on investments	(7,632,138)	-
Fundraising activities	-	222,925
Miscellaneous	7,357	2,532
Other investment income	78,000	-
Loss on disposal of property and equipment	(1,517)	-
Realized and unrealized loss on land held for investment	(86,180)	-
Equity loss of The Richmond Fund, LP	(18,271,886)	-
Changes in value of split interest agreements	(97,520)	-
Net assets released from program restrictions	10,475,976	399,303
Transfers of net assets	(60,430)	-
Total unrestricted	(14,860,132)	1,560,983
Temporarily Restricted		
Contributions and membership revenue	8,551,997	399,303
Investment income	118,266	380,440
Net unrealized and realized gains (losses) on investments	(3,729,795)	(1,548,621)
Equity loss of The Richmond Fund, LP	(8,929,397)	-
Changes in value of split interest agreements	510,699	-
Net assets released from program restrictions	(10,475,976)	(399,303)
Transfers of net assets	(396,805)	-
Total temporarily restricted	(14,351,011)	(1,168,181)
Permanently Restricted		
Contributions	2,235,545	377,958
Investment income	(34)	-
Net unrealized and realized gain on investments	1,050	-
Equity gain of The Richmond Fund, LP	2,513	-
Transfers of net assets	457,235	-
Total permanently restricted	2,696,309	377,958
Total revenue, gains and other support	(26,514,834)	770,760
EXPENSES AND LOSSES		
Unrestricted		
Grants to The Citadel	6,904,685	1,105,000
Other gift grants to The Citadel	6,598,211	-
General and administrative	940,048	426,154
Fund-raising	2,460,938	306,673
Total unrestricted	16,903,882	1,837,827
Total expenses	16,903,882	1,837,827
CHANGE IN NET ASSETS		
Unrestricted		
Unrestricted	(31,764,014)	(276,844)
Temporarily restricted	(14,351,011)	(1,168,181)
Permanently restricted	2,696,309	377,958
Total change in net assets	(43,418,716)	(1,067,067)
Reclassification based on change in accounting principal		
Unrestricted	(19,156,053)	338,771
Temporarily restricted	19,153,053	(2,069,149)
Permanently restricted	-	1,730,378
Total reclassification	-	-
Net assets at beginning of period		
Unrestricted	126,691,410	182,050
Temporarily restricted	20,543,773	4,506,821
Permanently restricted	26,656,298	3,666,790
Total net assets at beginning of period	173,891,481	8,355,661
Net assets at end of period		
Unrestricted	77,854,098	243,977
Temporarily restricted	23,266,060	1,269,491
Permanently restricted	29,352,607	5,775,126
Total net assets at end of period	\$ 130,472,765	\$ 7,288,594

See accompanying Notes to the Financial Statements

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Citadel is a State-assisted, coeducational institution of higher education. The College is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of The Citadel. The Citadel was established as an institution of higher education by Section 59-101-10 of the Code of Laws of South Carolina. The College is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-assisted universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoint most of their board members and budgets a significant portion of their funds.

The Citadel is governed by the Board of Visitors, which has seven members appointed by the General Assembly, three by The Citadel Alumni Association, and one by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of The Citadel.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement Number 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government and its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of the College, as the primary government, and the accounts of the following entities as component units:

The Citadel Trust (the Trust) was formed in 1991 as a non-profit eleemosynary corporation for the purpose of investing funds in order to provide scholarship and other financial assistance or support to The Citadel. The Trust is governed by a board of trustees appointed by The Citadel Board of Visitors. In addition, Citadel employees and facilities are used for virtually all activities of the Trust. The Trust has been reported as a blended component unit in the financial statements. The Trust is considered governmental in nature and, therefore, is subject to the governmental accounting model. Separate financial statements of the Trust can be requested from the College's controller at the following address: The Citadel, 171 Moultrie St., Charleston, SC 29409.

The Citadel Foundation (TCF) was established in 1961 as The Citadel Development Foundation, a separately chartered corporation. The Foundation's original goal was to support academic programs at The Citadel. In August 2000, The Citadel Development Foundation amended its charter to establish The Citadel Foundation as the College's official fundraising entity. TCF handles all gifts to the Foundation; gifts to restricted accounts, programs, and activities at the College; and gifts to The Citadel Brigadier Foundation and The Citadel Alumni Association for their specific activities and programs. TCF is governed by a board comprised of directors of the former Citadel Development Foundation, plus three other ex-officio members: the chairman of The Citadel Board of Visitors, the president of The Citadel, and a representative from The Citadel Brigadier Foundation. Although the College does not control the timing or amount of receipts from TCF, the majority of resources, or income thereon, that TCF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCF can only be used by, or for the benefit of, the College, TCF is considered a component unit of the College. TCF reports its financial results on a calendar-year basis. Copies of TCF's separately issued

THE CITADEL
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financial statements can be obtained by sending a request to the following address: The Citadel Foundation, 171 Moultrie St., Charleston, SC 29409.

The Citadel Brigadier Foundation (TCBF) is a separately chartered corporation organized exclusively to receive and manage private funds for support of athletic programs at The Citadel. A board elected by members of TCBF governs the organization. The Citadel Athletic Director is an ex-officio member of the TCBF Board of Directors. Funds raised by TCBF are used to provide scholarships for varsity athletes at The Citadel. Although the College does not control the timing or amount of receipts from TCBF, the majority of resources, or income thereon, that TCBF holds and invests, is restricted to the activities of The Citadel by the donors. Because these restricted resources held by TCBF can only be used by, or for the benefit of, the College, TCBF is considered a component unit of the College. TCBF's fiscal year ends on June 30. Copies of TCBF's separately issued financial statements can be obtained by sending a request to the following address: The Citadel Brigadier Foundation, 171 Moultrie St., Charleston, SC 29409.

TCF and TCBF are private not-for-profit organizations that report under Financial Accounting Standard Board (FASB) standards. Because these organizations are deemed not to be governmental entities and use a different reporting model, their balances and transactions are reported on separate financial statements. Most significant to TCF's and TCBF's operations and reporting model are Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, SFAS No. 117, *Financial Reporting for Not-for-Profit Organizations*, and SFAS No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to TCF's and TCBF's financial information in the College's financial reporting entity for these differences.

The Citadel is part of the primary government of the State of South Carolina because it is financially accountable to and fiscally dependent on the State.

Financial Statements: The financial statements of The Citadel have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. The financial statement presentation provides a comprehensive, entity-wide perspective of the College's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, The Citadel, along with its governmental component unit, is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intrafund transactions and balances have been eliminated.

The Citadel and its governmental component unit apply all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, the State of South Carolina has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

THE CITADEL
The Military College of South Carolina
Notes to the Financial Statements
June 30, 2009

Cash and Cash Equivalents: For purposes of the statement of cash flows, The Citadel considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Investments: The Citadel accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Most Citadel Foundation investments are in a limited partnership which is accounted for under the equity method. The carrying value, which approximates fair value, is determined by adding the historical investment cost, the amount of any income allocated to TCF, and deducting any expenses allocated to TCF. Other investments in marketable equity investments with readily determinable fair values and all investments in debt securities are carried at fair value. Some other investments are carried at cost; these assets include equity securities without readily determinable fair values.

The Citadel Brigadier Foundation accounts for its investments at fair value based on quoted market prices. The increase or decrease in the fair value of investments is recorded on a quarterly basis and are included in the change in net assets in the statements of activities. TCBF carries its investments in real estate at fair market value as of the date the real estate was donated to TCBF.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to The Citadel's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories, which consist of bookstore and gift shop inventories for resale, are carried at the lower of cost or market. The cost of inventory items is reported on a weighted average basis

Noncurrent Cash and Investments. Noncurrent cash and investments primarily consist of permanently endowed funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Expenses: Expenditures for services paid in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of insurance, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

THE CITADEL
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Notes to the Financial Statements
June 30, 2009

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Citadel follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Citadel capitalizes as a component of construction in progress interest cost in excess of earnings on debt proceeds associated with the capital projects; therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2009 was \$159,717.

Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: The Citadel's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which The Citadel is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The Citadel's policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Income Taxes: The Citadel is a political subdivision of the State of South Carolina and is, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of The Citadel may be subject to taxation as unrelated business income.

The Citadel Trust is a not-for-profit organization as described in Internal Revenue Code Section 501(c) (3) and related income is exempt from federal income tax under Code Section 501(a).

The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF) are not-for-profit organizations described in Internal Revenue Code Section 501(c) (3) and are exempt from federal income tax under Code Section 501(a). TCF and TCBF are classified by the Internal Revenue Service as other than private foundations and base their tax-exempt status on their support of the College.

Classification of Revenues and Expenses: The Citadel has classified its revenues and expenses as either operating or nonoperating revenues according to the following criteria:

Operating revenues and expenses: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarships discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) grants and contracts that are essentially the same as contracts for services that finance programs The Citadel would not otherwise undertake. For The Citadel Trust, operating revenues consist of investment income and net increases or decreases in fair value of investments. Operating expenses include all expense transactions incurred other than those related to investing, capital, or noncapital financing activities.

Nonoperating revenues and expenses: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income (except investment income for The Citadel Trust as mentioned above), and any grants and contracts that are not classified as operating revenue or are not restricted by the grantor to be used exclusively for capital purposes. Nonoperating expenses include interest paid on capital asset related debt, losses on disposal of assets, and refunds to grantors.

Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public.

THE CITADEL
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Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, cadet store, gift shop, barracks, dining hall, and infirmary and printing services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of College departments have been eliminated.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other Federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in The Citadel's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Rebatable Arbitrage: Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Citadel has no rebatable arbitrage liability at June 30, 2009.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses, and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements: The Citadel has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, or Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statements 51 and 53 are effective for The Citadel's year ending June 30, 2010. The Citadel is therefore unable to disclose the impact, if any, which adopting these GASB statements will have on its financial position and the results of its operations when the Statements are adopted.

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The Military College of South Carolina
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NOTE 2—CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS

Most deposits and investments of The Citadel are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Deposits and investments of The Citadel Trust, the College's blended component unit, are not under the State Treasurer's control and are deposited or invested by financial institutions and brokers.

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

Statement of Net Assets:	Citadel	Citadel Trust	Total
Current assets			
Cash and cash equivalents	\$ 15,676,301	\$ 424,962	\$ 16,101,263
Investments	-	1,336,325	1,336,325
Restricted assets			
Cash and cash equivalents	5,948,557	987,572	6,936,129
Investments	-	6,935,353	6,935,353
Noncurrent assets			
Investments	-	3,463,115	3,463,115
Restricted assets			
Cash and cash equivalents	4,433,422	2,876,731	7,310,153
Investments	-	36,948,263	36,948,263
Total Statement of Net Assets	<u>\$ 26,058,280</u>	<u>\$ 52,972,321</u>	<u>\$ 79,030,601</u>
Notes: Deposits and Investments			
Cash on hand	\$ 27,800	\$ -	\$ 27,800
Deposits held by State Treasurer	25,980,426	309,985	26,290,411
Other deposits	50,054	323,943	373,996
Investments	-	52,338,393	52,338,393
Total Notes	<u>\$ 26,058,280</u>	<u>\$ 52,972,321</u>	<u>\$ 79,030,600</u>

Deposits

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, The Citadel's deposits may not be returned to the College. For deposits held by the State Treasurer, State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, interest rate and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to The Citadel's and The Trust's other deposits at year-end, all of these deposits are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all cash deposits held at banks to be held in a bank trust department in a collateralized form.

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Investments

All investments are owned by The Citadel Trust, a component unit of The Citadel. Investments are stated at fair value based on quoted market prices. Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each fund's beginning fair value to the total. Investments contributed to the Trust are recorded at the fair value on the date of the gift. Purchases and sales are accounted for on the settlement date. The increase or decrease in the fair value of investments is recorded on a monthly basis. Earnings are recorded monthly. Authorized investments include U.S. government/government-insured securities, corporate stocks and bonds, and open-ended mutual funds, as authorized by trust agreements and The Citadel Trust Board of Directors.

As of June 30, 2009, The Trust had investments and maturities as shown below:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More than 10
Money Market Funds	\$ 3,655,338	\$ 3,655,338	\$ -	\$ -	\$ -
U.S. Treasury Bonds	1,951,264	-	1,167,219	649,810	134,235
U.S. Agency Bonds	3,510,876	60,757	1,731,814	1,295,093	423,212
Corporate Bonds	7,851,734	498,585	5,980,229	1,131,679	241,241
Municipal Bonds	484,408	-	299,593	184,815	-
Mutual Bond Funds	117,199	-	37,531	79,668	-
Total fixed income investments	17,570,819	<u>\$ 4,214,680</u>	<u>\$ 9,216,386</u>	<u>\$ 3,341,065</u>	<u>\$ 798,688</u>
Common Stocks	19,720,290				
Mutual Equity Funds	12,907,374				
Exchange Traded Equity Funds	2,139,910				
Total investments	<u>\$ 52,338,393</u>				

Custodial Credit Risk: Custodial credit risk is risk that the investor will not be able to recover the value of its investments that are in the possession of its safekeeping custodian. All of The Trust's investments are either insured or collateralized with securities held by the entity or by its agent in the entity's name, or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. The Trust has a formal investment policy that requires all investments held at banks to be held in a bank trust department in a collateralized form.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Citadel Trust investment policy states, "The Trust Board of Directors is aware of interest rate risk to bond principal valuation. Long dated bonds, which have the most principal risk in a rising interest rate environment, may be used by investment managers whose style utilizes strategies which include long dated bonds."

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Citadel Trust's investment policy addresses credit risk by requiring that each fixed income portfolio manager for its pooled investment fund maintain an overall weighted average credit rating of Baa/BBB or better by Moody's and Standard and Poors rating services, respectively. In addition, the minimum acceptable credit quality rating for a new purchase is investment grade (Baa/BBB). In the event a bond is downgraded below investment grade, the investment manager shall immediately evaluate the fixed income portfolio position and take appropriate action. An exception to holding below investment grade bonds is the ownership by The Trust of bond index pooled vehicles.

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At June 30, 2009, The Trust had debt securities and quality ratings as shown below:

Investment Type	Fair Value	Quality Rating				
		Aaa/Aa	A	Ba-Baa	Unrated	N/A
Money Market Funds	\$ 3,655,338	\$ -	\$ -	\$ -	\$ 3,655,338	\$ -
U.S. Treasury Bonds	1,951,264	-	-	-	-	1,951,264
U.S. Agency Bonds	3,510,876	-	-	-	3,510,876	-
Corporate Bonds	7,851,734	1,759,739	3,841,324	2,002,008	248,663	-
Municipal Bonds	484,408	412,610	71,798	-	-	-
Mutual Bond Funds	117,199	117,199	-	-	-	-
Totals	<u>\$ 17,570,819</u>	<u>\$ 2,289,548</u>	<u>\$ 3,913,122</u>	<u>\$ 2,002,008</u>	<u>\$ 7,414,877</u>	<u>\$ 1,951,264</u>

Unrated investments include Money Market Funds which are invested in commercial paper and other short-term obligations rated by a nationally recognized rating organization in the highest short-term rating category, or, if unrated, of equivalent quality, and in other corporate obligations and municipal obligations rated in the two highest rating categories, or if unrated, of equivalent quality.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of The Trust's investment in a single issuer. The Trust's policy for reducing this risk of loss is to require each investment manager to limit the investment in any one issuer to a maximum of 5% for equity investments (with the exception of one manager who manages approximately \$3.7 million) and 10% for fixed income investments (except for securities issued by the U.S. government and its agencies). The Trust's Board of Directors reviews substantial equity positions for the entire investment pool on a quarterly basis. At June 30, 2009 there were no single issuer investments that exceeded 5%.

Foreign Currency Risk. Foreign currency risk is the risk of loss arising from changes in exchange rates for investments denominated in foreign currencies. The Trust's international investment allocation is invested in U.S. dollar denominated mutual funds and exchange traded funds – the American Funds EuroPacific Growth Fund, American Funds Capital World Growth and Income Fund, and Vanguard Emerging Markets ETF. These funds invest in companies based chiefly in Europe, the Pacific Basin, Asia and Latin America. The market value of these holdings at June 30, 2009 was \$8,826,586. The Trust foreign currency risk policy states: "The Trust Board of Directors is aware of the risk from fluctuating currency values in that portion of the fund which is invested in international securities. Investment managers who invest in international securities may purchase and sell currencies to facilitate currency exchange rates. Such currency transactions are at the discretion of the international investment manager(s) and it is recognized by the Board of Directors of The Citadel Trust that while entering into forward currency transactions could minimize the risk of loss due to decline in the value of the hedged currency, such transactions could also limit any potential gain that may result from an increase in the value of the currency."

Investments – Non Governmental Discretely Presented Component Units

The Citadel Brigadier Foundation

Investment earnings in pooled or common investments in which multiple funds are invested are allocated among the funds in a proportion of each funds beginning fair value to the total.

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At June 30, 2009, TCBF's investments are as follows:

Investments carried at fair value	Cost	Fair Value
Equity funds and individual securities	\$ 4,051,567	\$ 3,755,814
Fixed income funds and individual debt securities	1,868,225	1,874,599
Total investments	\$ 5,919,792	\$ 5,630,413

The Citadel Foundation

In February 2008 TCF initiated a co-investment relationship with Spider Management Company (a wholly owned subsidiary of the University of Richmond). TCF acquired limited partnership interests in The Richmond Fund, LP, which is managed by Spider Management Company, through contributions of capital. TCF accounts for this investment using the equity method. Investments related to split-interest agreements held by TCF are carried at fair value.

TCF maintains master investment accounts for its individual accounts. Realized and unrealized gains and losses and income from securities in the master investment accounts are allocated periodically to the individual accounts based on the relationship of the market value of each individual account to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

TCF investments were composed of the following at December 31, 2008:

	Cost	Fair Value
Investment in limited partnership interest-equity method	\$ 148,652,020	\$ 121,453,250
Various equity securities	141,843	112,899
Total	\$ 148,793,863	\$ 121,566,149

NOTE 3—RECEIVABLES

Accounts Receivable

Accounts receivable as of June 30, 2009, are summarized as follows:

	Citadel	Citadel Trust	Total
Receivables:			
Student fees	\$ 7,391,638	\$ -	\$ 7,391,638
Grants and contracts	112,715	597	113,312
Accrued interest	158,446	173,266	331,712
Other	550,778	-	550,778
Gross receivables	8,213,577	173,863	8,387,440
Less allowance for uncollectibles:			
Student fees	202,070	-	202,070
Accounts receivable, net	<u>\$ 8,011,507</u>	<u>\$ 173,863</u>	<u>\$ 8,185,370</u>

Allowances for losses for accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio.

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Contributions Receivable

Contributions receivable are comprised of pledges for gifts to support the College. Contributions receivable are accounted for at their estimated net realizable value or the present value of long-term pledges. Discount to present value was calculated using a 2% interest rate for 2009 and 2008. The composition of contributions receivable at June 30, 2009, is summarized as follows:

	Citadel	Citadel Trust	Total
Gift Pledges Outstanding:			
Operations	\$ 345,500	\$ 398,342	\$ 743,842
Total gift pledges outstanding	345,500	398,342	743,842
Less:			
Unamortized discount to present value	43,159	41,203	84,362
Allowance for doubtful accounts	-	48,438	48,438
Total contributions receivable, net	\$ 302,341	\$ 308,701	\$ 611,042

Payments on contributions receivable as of June 30, 2009, are expected to be received in the following years ending June 30:

	Citadel	Citadel Trust	Total
2010	\$ 90,179	\$ 184,322	\$ 274,501
2011	76,198	83,734	159,932
2012	71,952	26,939	98,891
2013	64,012	11,551	75,563
2014	-	1,088	1,088
Due after 2014	-	1,067	1,067
	\$ 302,341	\$ 308,701	\$ 611,042

Pledges for permanent endowments do not meet the eligibility requirements, as defined by GASB Statement 33, until the related gift is received. Accordingly, permanent endowment pledges to the Trust totaling \$706,049 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

Student Loans Receivable

Loans receivable consists of loans made through the Trust's loan program and loans made through the Federal Perkins Loan Program. Citadel Trust student loans receivable are broken down into two classifications – (1) those payments that will be received within the following fiscal year are classified as "current portion of loans receivable", (2) the remaining payments are classified as noncurrent loans receivable. All Perkins student loans receivable are classified as noncurrent loans receivable.

The Perkins Loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the College determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education. The Trust's loan program is administered similarly; except these loans are non-cancelable and written-off loans are not assigned to the US Department of Education. The Trust has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

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Student loans receivable at June 30, 2009 are summarized as follows:

	Citadel	Citadel Trust	Total
Loans receivable	\$ 648,361	\$ 384,754	\$ 1,033,115
Less allowance for uncollectible loans	-	244,330	244,330
Net loans receivable	<u>\$ 648,361</u>	<u>\$ 140,424</u>	<u>\$ 788,785</u>

NOTE 4—RESTRICTED ASSETS

The purposes and amounts of restricted assets at June 30, 2009 are as follows:

Asset /Restricted for	Citadel	Citadel Trust
Current:		
Cash and cash equivalents:		
Donor/sponsor specified	\$ 5,330,511	\$ 861,705
Debt service	618,046	-
College administered loan program	-	125,867
Total cash and cash equivalents	<u>\$ 5,948,557</u>	<u>\$ 987,572</u>
Investments:		
Donor/sponsor specified	\$ -	\$ 6,935,353
Contributions Receivable:		
Donor/sponsor specified	<u>\$ 90,179</u>	<u>\$ 153,721</u>
Student Loans Receivable:		
College administered loan program	<u>\$ -</u>	<u>\$ 83,136</u>
Noncurrent:		
Cash and cash equivalents		
Endowment	\$ 258,874	\$ 1,570,738
Federal Perkins loan program	50,053	-
Capital projects	4,063,156	1,305,993
Cash held for other parties	61,339	-
Total cash and cash equivalents	<u>\$ 4,433,422</u>	<u>\$ 2,876,731</u>
Investments:		
Endowment	\$ -	\$ 36,123,467
College administered loan program	-	824,796
Total investments	<u>\$ -</u>	<u>\$ 36,948,263</u>
Contributions Receivable		
Donor/sponsor specified	<u>\$ 212,162</u>	<u>\$ 112,978</u>
Total contributions receivable	<u>\$ 212,162</u>	<u>\$ 112,978</u>
Student Loans Receivable		
College administered loan program	\$ -	\$ 57,288
Federal Perkins Loan Program	648,361	-
Total student loans receivable	<u>\$ 648,361</u>	<u>\$ 57,288</u>
Cash Surrender Value of Life Insurance:		
Endowments	<u>\$ -</u>	<u>\$ 56,995</u>

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NOTE 5—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, is summarized as follows:

	July 1, 2008	Increases	Decreases	June 30, 2009
Capital assets not being depreciated:				
Land and improvements	\$ 4,800,669	\$ 27,000	\$ -	\$ 4,827,669
Construction-in-progress	15,390,376	7,235,259	18,806,818	3,818,817
Fine arts	350,720	6,400	-	357,120
Total capital assets not being depreciated	<u>20,541,765</u>	<u>7,268,659</u>	<u>18,806,818</u>	<u>9,003,606</u>
Other capital assets:				
Land improvements	8,967,406	-	-	8,967,406
Buildings and improvements	153,528,387	18,806,818	-	172,335,205
Machinery, equipment, and other	5,290,363	1,111,017	934,071	5,467,309
Vehicles	636,210	35,215	72,351	599,074
Intangibles	973,642	1,329,030	-	2,302,672
Total other capital assets at historical cost	<u>169,396,008</u>	<u>21,282,080</u>	<u>1,006,422</u>	<u>189,671,666</u>
Less accumulated depreciation for:				
Land improvements	4,476,398	594,709	-	5,071,107
Buildings and improvements	45,053,777	3,892,272	-	48,946,049
Machinery, equipment, and other	3,773,254	473,123	816,693	3,429,684
Vehicles	529,372	34,803	69,317	494,858
Intangibles	144,261	94,322	-	238,583
Total accumulated depreciation	<u>53,977,062</u>	<u>5,089,229</u>	<u>886,010</u>	<u>58,180,281</u>
Other capital assets, net	<u>115,418,946</u>	<u>16,192,851</u>	<u>120,412</u>	<u>131,491,385</u>
Capital assets, net	<u>\$ 135,960,711</u>	<u>\$ 23,461,510</u>	<u>\$ 18,927,230</u>	<u>\$ 140,494,991</u>

The gain (loss) on disposal of assets consisted of the following:

Gain on disposal	\$ 28,217
Loss on disposal	<u>(97,089)</u>
Net gain (loss) on disposal	<u>\$ (68,872)</u>

NOTE 6—DEFERRED REVENUES

The composition of deferred revenues at June 30, 2009, is summarized as follows:

	Citadel	Citadel Trust	Total
Student fees	\$ 1,365,887	\$ -	\$ 1,365,887
Sales and services, educational & other	-	5,000	5,000
Sales and services, auxiliary enterprises	2,879,664	-	2,879,664
Federal grants and contracts	44,623	-	44,623
Total deferred revenue	<u>\$ 4,290,174</u>	<u>\$ 5,000</u>	<u>\$ 4,295,174</u>

During fiscal year 2007 The Citadel entered into a ten year contract with Daktronics Inc. under which Daktronics agreed to provide and install certain equipment and concourse elements at Citadel athletic facilities in exchange for advertising rights at athletic events. Daktronics furnished a scoreboard system valued at \$1,700,000 in fiscal year 2007 and anticipates furnishing additional equipment in future years,

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including a scoreboard for the basketball arena and an electronic billboard for the football stadium. The contract with Daktronics establishes an annual revenue threshold. When advertising revenues exceed the threshold, Daktronics and The Citadel split the excess revenue equally. If athletic advertising does not meet the threshold in any year, that deficit is carried over to the next year and added to the threshold for the following year. Should a deficiency remain at the end of the ten year contractual period, the deficiency will be carried over to the next contract period if the contract with Daktronics is extended. If another contractor is chosen management anticipates that contractor will pay The Citadel the amount of the deficiency and The Citadel will pay that amount to Daktronics. Management believes that the contract is structured so that The Citadel is not required to fund any deficiency that may exist at the end of the 10 year contract period.

The Citadel treated this transaction as a sale of future revenues. The College will not maintain an active involvement in the future generation of advertising revenues. The College is amortizing the deferred revenues in a straight line fashion over the ten years of the contract period. In fiscal year 2009 \$170,000 of the deferred amount was recognized as revenue. \$170,000 of the remaining Daktronics' deferred revenue is recorded as current deferred revenue, and the remaining \$1,020,000 is recorded as noncurrent deferred revenue.

The Citadel entered into a ten year contract with ARAMARK for campus food service in fiscal year 2007. The contract required ARAMARK to pay The Citadel \$2 million at the beginning of the contract period. This payment will be amortized over the life of the contract and in the case of early termination the unamortized portion will be returned to ARAMARK. \$200,000 of this contractual payment was recognized as revenue in the current year. \$200,000 of the remaining ARAMARK contractual revenue is recorded as current deferred revenue, and the remaining \$1,200,000 is recorded as noncurrent deferred revenue.

NOTE 7—BONDS AND NOTES PAYABLE

Bonds Payable

Bonds payable consisted of the following at June 30, 2009:

		Interest Rate	Maturity Dates	Balance June 30, 2009	Debt Retired in Fiscal Year 2009
Institution Bonds					
Series 2001D	adjustable from	4.25% to 5.50%	12/01/2016	\$ 1,700,000	\$ 170,000
				<u>1,700,000</u>	
Revenue Bonds					
Series 1997	adjustable from	4.875% to 5.125%	04/01/2013	2,720,000	735,000
Series 2005	adjustable from	2.5% to 4.5%	04/01/2029	23,760,000	1,015,000
				<u>26,480,000</u>	
Athletic Facilities Revenue Bonds					
Series 2003		Fixed at 4.19%	02/15/2018	2,117,243	190,529
Series 2005		Fixed at 4.19%	02/15/2015	3,888,108	559,071
Series 2006		Fixed at 7.17%	02/01/2031	8,680,000	-
Series 2007		Fixed at 6.81%	02/01/2017	5,495,000	505,000
				<u>20,180,351</u>	
Subtotal Bonds Payable				48,360,351	3,174,600
Less unamortized bond discount and deferred loss on bonds				600,353	126,471
Total Bonds Payable				<u>\$ 47,759,998</u>	<u>\$ 3,048,129</u>

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State institution bonds are general obligations bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. S.C. Code of Laws section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year. Tuition fees for the preceding year were \$648,659 which results in a legal debt margin at June 30, 2009, of \$583,793. The Citadel's maximum annual debt service, which occurs in fiscal year 2015, is \$258,210.

General revenue bonds are payable from and secured by a pledge of net revenues derived by The Citadel from the operation of the facilities constructed with the bond proceeds. These bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of The Citadel which are not (1) otherwise designated or restricted; (2) funds derived from appropriations; and (3) tuition funds pledged to the repayment of State institution bonds. Athletic facilities revenue bonds are payable from and secured by a pledge of two sources of revenue: the Athletic Facility Fee and the Athletic Fee.

The Citadel has secured insurance contracts for The Series 1997 and Series 2007 Revenue Bonds that guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of The Citadel.

As of June 30, 2009, management believes it is in compliance with all related bond covenants of its issued debt.

All bonds are payable in semiannual installments plus interest, with the exception of the Athletic Facilities Revenue Bonds, Series 2003, which are payable in annual installments, and the Athletic Facilities Taxable Revenue Bonds, Series 2006, which require interest only payments until fiscal year 2010. The scheduled maturities of bonds payable by type are as follows:

State Institution Bonds	Principal	Interest	Payments
2010	\$ 180,000	\$ 74,006	\$ 254,006
2011	185,000	65,678	250,678
2012	200,000	56,900	256,900
2013	205,000	47,787	252,787
2014	215,000	38,338	253,338
2015 – 2017	715,000	51,545	766,545
	<u>\$ 1,700,000</u>	<u>\$ 334,254</u>	<u>\$ 2,034,254</u>
Revenue and Athletic Facilities Bonds			
2010	3,315,254	2,304,905	5,620,159
2011	3,460,245	2,152,561	5,612,806
2012	3,628,628	1,986,470	5,615,098
2013	3,801,464	1,815,906	5,617,370
2014	3,973,812	1,646,781	5,620,593
2015 – 2019	13,705,948	5,689,570	19,395,518
2020 – 2024	5,790,000	3,557,263	9,347,263
2025 – 2029	7,550,000	1,935,943	9,485,943
2030 – 2031	1,435,000	155,948	1,590,948
	<u>\$ 46,660,351</u>	<u>\$ 21,245,347</u>	<u>\$ 67,905,698</u>

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The Citadel reported principal and interest payments related to the bonds as follows for the year ended June 30, 2009:

Bond Type	Principal	Interest
State Institution Bonds	\$ 170,000	\$ 81,775
Revenue Bonds	1,750,000	1,129,956
Athletic Facilities Revenue Bonds	1,254,601	1,308,193
	<u>\$ 3,174,601</u>	<u>\$ 2,519,924</u>

Notes Payable

At June 30, 2009, notes payable consisted of the following:

Note payable secured by enterprise information system dated July 2008. Interest only for the first year, thereafter payable in quarterly principal and interest payments of \$201,306, matures July 2015, fixed interest rate of 3.66%. \$4,320,000

Note payable secured by energy management system dated November 2008. Interest only for the first year, thereafter payable in monthly principal and interest payments of \$55,071, matures November 2018, fixed interest rate of 5.1584%. 4,750,000

\$9,070,000

The scheduled maturities of the notes payable are as follows:

Notes Payable	Principal	Interest	Payments
2010	\$ 735,503	\$ 395,531	\$ 1,131,034
2011	1,112,998	353,074	1,466,072
2012	1,161,192	304,880	1,466,072
2013	1,211,538	254,534	1,466,072
2014	1,264,137	201,935	1,466,072
2015 - 2019	3,584,632	340,645	3,925,277
	<u>\$ 9,070,000</u>	<u>\$ 1,850,599</u>	<u>\$ 10,920,599</u>

Total principal paid on notes payable was \$34,806 for the year ended June 30, 2009. Total interest paid on notes payable was \$263,881.

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NOTE 8—LEASE OBLIGATIONS

The Citadel's future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2009 were as follows:

<u>Year ending June 30,</u>	<u>Capital Leases/ Equipment</u>	<u>Operating Leases/ Equipment</u>
2010	\$ 35,639	\$ 740
2011	25,723	1,109
2012	25,723	1,109
2013	25,723	1,109
2014	19,292	370
Total minimum lease payments	132,100	\$ 4,437
Less: Interest	19,373	
Executory and other costs	45,156	
Present value of minimum lease payments	<u>\$ 67,571</u>	

All leases are with parties outside state government.

Capital Leases

Capital leases for various pieces of equipment are payable in monthly installments from current resources. Expenditures for fiscal year 2009 were \$38,509, of which \$5,366 represented interest and \$13,283 represented executory costs. Total principal paid on capital leases was \$19,859 for the year ended June 30, 2009. The following is a summary of the carrying values of assets held under capital lease at June 30, 2009.

Equipment acquired under capital leases	\$ 102,253
Less accumulated amortization	<u>33,897</u>
Equipment acquired under capital leases, net	<u>\$ 68,356</u>

Operating Leases

The Citadel's noncancelable operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total operating lease expense in fiscal year 2009 was \$740.

In the current fiscal year, The Citadel incurred expenses of \$146,370 for office copier service on a cost-copy basis.

NOTE 9—RETIREMENT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

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Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of The Citadel are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost-of-living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 2006 employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. Effective July 1, 2008, the employer contribution rate became 12.74 percent which included a 3.50 percent surcharge to fund retiree health and dental insurance coverage. The Citadel's actual contributions to the SCRS for the three most recent fiscal years ended June 30, 2007, 2008, and 2009, were \$1,766,776, \$2,196,918, and \$2,204,264.69 respectively, and equaled the required contributions of 9.06 percent for 2007 and 2008 and 9.24% for 2009 (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$36,086 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2008, the employer contribution rate became 14.15 percent which, as for the SCRS, included the 3.50 percent surcharge. The Citadel's actual contributions to the PORS for the years ended June 30, 2007, 2008, and 2009, were \$58,505, \$61,779, and \$73,197.13 respectively, and equaled the required contributions of 10.65 percent (excluding the surcharge) for each year. Also, The Citadel paid employer group-life insurance contributions of \$1,375 and accidental death insurance contributions of \$1,375 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

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ORP participation is available to all permanent employees of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.50 percent from the employer in fiscal year 2009.

Certain of The Citadel's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$1,028,316 (excluding the surcharge) from The Citadel as employer and \$723,382 from its employees as plan members. In addition, The Citadel paid \$16,693 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of The Citadel have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost-of-living adjustments granted during the TERI period.

TERI participants are eligible to receive group life insurance benefits, but are not eligible for disability retirement benefits. Effective July 1, 2006 TERI participants are required to pay the same pre-tax contribution to the SC Retirement System during the TERI period, but they do not earn service credit.

NOTE 10—POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Citadel contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

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Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.50% and 3.42% of annual covered payroll for 2009 and 2008, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Citadel paid \$1,227,753 and \$1,160,236 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2009 and 2008, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2009 and 2008.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

NOTE 11—LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

	July 1, 2008	Additions	Reductions	June 30, 2009	Due Within One Year
Bonds and Notes Payable and Capital					
Lease Obligations:					
State Institution Bonds	\$ 1,870,000	\$ -	\$ 170,000	\$ 1,700,000	\$ 180,000
Less unamortized bond discount	3,667	-	695	2,972	631
Total State Institution Bonds	1,866,333	-	169,305	1,697,028	179,369
Revenue Bonds	28,230,000	-	1,750,000	26,480,000	1,820,000
Athletic Facilities Revenue Bonds	21,434,951	-	1,254,600	20,180,351	1,495,254
Less deferred loss on refunding	393,829	-	82,912	310,917	82,911
Less unamortized bond discount	329,328	-	42,864	286,464	39,192
Total Revenue Bonds Payable	48,941,794	-	2,878,824	46,062,970	3,193,151
Total Bonds Payable	50,808,127	-	3,048,129	47,759,998	3,372,520
Notes Payable	34,806	9,070,000	34,806	9,070,000	735,503
Capital Lease Obligations	35,219	64,387	32,035	67,571	15,997
Total Bonds, Notes & Capital Leases	50,878,152	9,134,387	3,114,970	56,897,569	4,124,020
Other Liabilities					
Accrued compensated absences	2,460,200	1,517,972	1,413,451	2,564,721	1,413,451
Federal loan funds	484,763	5,892	-	490,655	-
Deferred revenue	4,644,588	1,705,174	2,054,588	4,295,174	2,075,174
Deposits	1,887,861	980,595	1,118,276	1,750,180	1,169,179
Annuities payable	25,596	7,469	8,190	24,875	8,190
Funds held for others	136,416	61,339	136,416	61,339	-
Total Other Liabilities	9,639,424	4,278,441	4,730,921	9,186,944	4,665,994
Total Long-term Liabilities	\$ 60,517,576	\$ 13,412,828	\$ 7,845,891	\$ 66,084,513	\$ 8,790,014

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Additional information regarding Bonds and Notes Payable is included in Note 7. Additional information regarding Capital Lease Obligations is included in Note 8. Additional information regarding Deferred Revenues is included in Note 6.

NOTE 12—CONSTRUCTION COSTS AND COMMITMENTS

Capitalized

The Citadel has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that The Citadel has sufficient resources available and/or future resources identified to satisfactorily complete the construction of these projects which are expected to be completed in varying phases over the next five years at an estimated cost of \$8,841,893. Of the total estimated cost, approximately \$2,625,000 is unexpended at June 30, 2009. Of the unexpended balance at June 30, 2009, The Citadel had remaining commitment balances of approximately \$1,800,000 with certain property owners, engineering firms, construction contractors, and vendors related to these projects. During the current year The Citadel capitalized substantially complete and in-use projects in the amount of \$18,806,818.

Major capital projects at June 30, 2009, which constitute construction in progress that will be capitalized when completed, are listed below.

Project Title	Estimated Cost	Amount Expended
Campus Wide Energy Performance Contract	\$ 4,851,893	\$ 3,651,439
Daniel Library Renovation	1,590,000	167,378
	<u>\$ 6,441,893</u>	<u>\$ 3,818,817</u>

The amount expended includes only capitalized project expenditures and capitalized interest on construction debt for projects that are less than 90% complete and does not include any noncapitalized expenditures.

Non-Capitalized

At June 30, 2009 The Citadel had in progress other capital projects which are not to be capitalized when complete. These projects are for replacements, repairs, and/or renovations to existing facilities. Estimated costs on these non-capitalized projects total \$1,840,459. This amount includes costs incurred to date of \$942,662 and estimated costs to complete of \$897,797. The Citadel has remaining commitment balances with certain parties related to these projects of approximately \$340,000.

The Citadel anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state bond proceeds. The State has provided capital reserve funds and research infrastructure bonds to fund improvements and expansion of state facilities. The Citadel is not obligated to repay these funds to the State. Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. At June 30, 2009 The Citadel had \$78,877 of authorized research infrastructure bonds remaining.

NOTE 13—DONOR RESTRICTED ENDOWMENTS

The Citadel Trust manages most donor-restricted endowments. If a donor has not provided specific instructions, State law permits The Citadel Trust Board of Directors to authorize for expenditure the net

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appreciation (realized and unrealized) of the investments of endowment funds. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Citadel Trust chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Trust Board of Directors, 5 percent of the average market value of endowment investments at the end of the previous twelve quarters has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2009, net appreciation of \$3,505,307 is available to be spent, of which \$3,475,597 is restricted to specific purposes.

NOTE 14—SPLIT INTEREST AGREEMENTS

In December 1993 a benefactor established a charitable remainder uni-trust, consisting of publicly traded common stock valued at \$60,000,000, to which The Citadel Trust, Inc., is entitled to one-third of the remaining assets upon the benefactor's death. During fiscal year 2003 the above donor distributed approximately \$1 million of stock from this charitable remainder uni-trust to each of the three beneficiaries. Annually the uni-trust is to pay to the benefactor 6% of the net fair market value of the assets in the charitable remainder trust, valued as of the first day of each taxable year of such trust. If income from these assets is insufficient to pay this amount, it will be paid from principal. The uni-trust is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for the gift has not been met, these uni-trust assets are not included in these financial statements.

During fiscal year 1999 another donor established a charitable remainder trust (CRT), consisting of assets valued at less than \$600,000, to which the Trust is entitled to all of the remaining assets upon the death of the CRT beneficiaries. The pledge for the CRT is restricted for scholarships. The CRT is irrevocable and is not managed by The Citadel or The Citadel Trust. Since the ultimate amount received cannot be reasonably estimated and the eligibility requirement for this gift has not been met, these trust assets are not included in these financial statements.

During fiscal year 2000 a donor established a charitable gift annuity that provides for fixed payments to the donor for his lifetime. At the termination of the agreement the remaining assets of the gift annuity will become available to The Citadel Trust for general institutional purposes. This annuity fund is held and separately managed by The Citadel Trust. At the end of each fiscal year an adjustment is made between the liability and the nonexpendable net asset value to record the actuarial gain or loss due to the recomputation of the present value of the liability based on the revised life expectancy of the donor. At June 30 2009 the present value of the annuity payable was \$24,875.

NOTE 15—DISCRETELY PRESENTED COMPONENT UNITS

Certain separately chartered legal entities whose activities are related to those of The Citadel exist primarily to provide financial assistance and other support to the College and its educational program. They include The Citadel Foundation (TCF) and The Citadel Brigadier Foundation (TCBF). Because the activities and resources of these entities are for the sole benefit of The Citadel, they are considered component units of the College and are discretely presented in The Citadel's financial statements as non-governmental reporting entities. Following is a more detailed discussion of each of these entities and a summary of the significant transactions between these entities and The Citadel for the year ended June 30, 2009.

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The Citadel Foundation (TCF)

For the fiscal year ended June 30, 2009, TCF received current year contributions of \$3,302,389 on behalf of The Citadel and The Citadel Trust -- \$2,110,294 of this total was recorded as gifts, \$1,150,280 was recorded as additions to permanent endowments, and \$41,815 was recorded as capital gifts in nonoperating revenues. The Citadel Trust paid TCF a fee of \$508,011 for its fundraising services.

In addition, The Citadel and The Citadel Trust recorded non-governmental grants of \$5,098,030 and capital grants of \$1,226,804 from TCF for the fiscal year ended June 30, 2009. These funds were used to support scholarships, salaries and various academic programs and construction projects at the College.

TCF reimburses The Citadel for certain expenses incurred on behalf of TCF. The reimbursement totaled \$135,327 for the year ended June 30, 2009. TCF also provided \$15,016 to partially fund The Citadel Magazine.

The amount due from TCF varies during the fiscal year based on amounts due for grants and expenses incurred on behalf of TCF and contributions collected by TCF on behalf of The Citadel. TCF's balance sheet dated December 31, 2008, shows a grant payable to The Citadel of \$3,037,791. The amount due to The Citadel from TCF at June 30, 2009, is \$30,169.

The Citadel Brigadier Foundation (TCBF)

The Citadel recorded non-governmental grants of \$1,105,000 from TCBF in the fiscal year ended June 30, 2009. These grants were used to support athletic scholarships at the College.

TCBF reimburses The Citadel for certain expenses incurred on behalf of TCBF. The reimbursement totaled \$232,318 for the year ended June 30, 2009. TCBF did not owe The Citadel at June 30, 2009.

NOTE 16—RELATED PARTIES

Citadel Alumni Association (CAA) is a separately chartered corporation organized exclusively to promote alumni activities at The Citadel. CAA's activities are governed by its Board of Directors. CAA net assets totaled \$4,534,085 at December 31, 2008.

The activities of CAA are not included in The Citadel's financial statements. However, The Citadel's statements include transactions between the College and the CAA. Following is a summary of the significant transactions between The Citadel and CAA for the year ended June 30, 2009.

The College shares the costs of operating the newly renovated John Monroe Holliday Alumni Center building with CAA. Expenses related to routine operations of the alumni center are allocated based on the joint use of the building by Citadel staff who function as both the College Alumni Office and the Alumni Association Office. All expenses related to income production are borne by the CAA. CAA prepares an annual accounting of the net income of rental activities each May. After covering CAA income producing costs, any amount remaining is split on the same basis as building operating expenses. For the year ended June 30, 2009, The Citadel's share of John Monroe Holliday Alumni operating profits was \$72,000 and is recorded as other nonoperating revenue.

CAA reimburses The Citadel for certain expenses incurred on behalf of CAA. The reimbursement totaled \$349,447 for the year ended June 30, 2009.

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NOTE 17—TRANSACTIONS WITH STATE ENTITIES

The Citadel is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina (the State). State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the College receives authorization from the General Assembly to carry the funds over to the next year.

The original appropriation is The Citadel's base budget amount presented in the General Funds column of Section 5C, Part 1A, of the 2008-09 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2009:

<u>State Appropriations</u>	
Original appropriation	\$ 15,745,501
Agency reductions	(3,553,619)
State raise pay plan appropriation	155,266
Appropriation allocations from the State Commission on Higher Education	
For Academic Endowment Match	19,129
For Technology Grant Program	510,434
Appropriation allocation from the Lowcountry Graduate Center	<u>10,000</u>
Total State Appropriation Revenues	<u>\$ 12,886,711</u>

The following is a reconciliation of state capital appropriations The Citadel received during the fiscal year ended June 30, 2009:

	Capital Reserve Fund Proceeds	Research Infrastructure Bond Proceeds	Total
<u>State Capital Appropriations</u>			
Proceeds drawn during the current fiscal year	\$ 1,015,988	\$ 430,447	\$ 1,446,435
Less: Proceeds drawn but not expended during the current fiscal year	<u>768,481</u>	<u>53,223</u>	<u>821,704</u>
Total State Bond Proceeds	<u>\$ 247,507</u>	<u>\$ 377,224</u>	<u>\$ 624,731</u>

The Citadel received substantial funding from the Commission on Higher Education (CHE) for scholarships on behalf of students that is accounted for as operating State grants and contracts. Additional amounts received from CHE are accounted for as nonoperating revenue. The Citadel also receives State funds from various other State agencies for public service projects. The following is a summary of amounts received from State agencies for scholarships, sponsored research and public service projects for the fiscal year ended June 30, 2009:

<u>Other amounts received from State agencies</u>	<u>Operating Revenue</u>	<u>Nonoperating Revenue</u>
Received from the Commission on Higher Education (CHE):		
LIFE Scholarships	\$ 1,657,156	\$ -
Palmetto Fellows Scholarships	146,100	-
Need-Based Grants	210,468	-
Hope Scholarships	155,400	-
National Guard College Assistance Program	373,636	-
Access and Equity Competitive Grants	-	7,510
Received from various other state agencies	<u>-</u>	<u>45,510</u>
	<u>\$ 2,542,760</u>	<u>\$ 53,020</u>

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The Citadel provided no significant services free of charge to any State agency during the fiscal year. Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond trustee and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The Citadel had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, insurance coverage, office supplies, and interagency mail. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 2009 expenditures applicable to related transactions with State entities are not readily available.

The Citadel and the South Carolina National Guard (SCNG) worked together to construct a joint National Guard Readiness Center/ Press Box/Skybox facility at Johnson Hagood Football Stadium. The Citadel leased the land to the National Guard for 25 years and the National Guard constructed the facility. The club and skybox area opened at the beginning of the football season in the fall of 2008. The SCNG completed the remainder of construction and began occupying its portion of the building in late spring. The Citadel has capitalized its costs in the entire facility and the SCNG has capitalized its share of the costs. The Citadel's construction funding included gift revenue, \$8,680,000 in athletic facility taxable revenue bonds issued in June 2006 and \$6,000,000 in athletic facility taxable revenue bonds issued in November 2007.

NOTE 18—RISK MANAGEMENT

The Citadel is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The Citadel and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment

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Motor vehicles and watercraft
Torts
Natural disasters
Medical malpractice claims against the Infirmary

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The Citadel obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the College's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 19—CONTINGENCIES AND LITIGATION

The Citadel is involved in legal proceedings and claims with various parties which arose in the normal course of business and cover a wide range of matters. In the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these items is remote, and the outcome of the legal proceedings and claims is not expected to have a material effect on the financial position of The Citadel. Therefore, an estimated liability has not been recorded.

The Citadel participates in certain Federal programs. These programs are subject to financial and compliance audits by the grantor or its representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

NOTE 20—OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2009, are summarized as follows:

	Compensation and Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 20,318,498	\$ 1,661,607	\$ -	\$ 71,275	\$ -	\$ 22,051,380
Research	149,646	218,119	-	-	-	367,765
Public Service	366,728	207,396	-	-	-	574,124
Academic Support	4,829,905	2,298,853	-	7,053	-	7,135,811
Student Services	4,787,944	1,641,322	20,974	-	-	6,450,240
Institutional Support	6,490,318	866,395	2,546	-	-	7,359,259
Operations & Maint. of Plant	4,428,307	3,890,280	2,260,542	-	-	10,579,129
Scholarships & Fellowships	56,054	192,739	-	2,950,367	-	3,199,160
Auxiliary Enterprises	6,917,012	16,855,084	970,163	1,980	-	24,744,239
Depreciation	-	-	-	-	5,089,229	5,089,229
Total Operating Expenses	<u>\$ 48,344,412</u>	<u>\$ 27,831,795</u>	<u>\$ 3,254,225</u>	<u>\$ 3,030,675</u>	<u>\$ 5,089,229</u>	<u>\$ 87,550,336</u>

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NOTE 21—INFORMATION FOR INCLUSION IN THE STATE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The Citadel's transactions are reported in the Higher Education Fund, an enterprise fund, of the State of South Carolina. The following is information needed to present the College's business-type activities in the State's government-wide Statement of Activities.

<u>The Citadel</u>	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Charges for services	\$ 62,748,574	\$ 57,731,970	\$ 5,016,604
Operating grants and contributions	8,389,679	8,415,906	(26,227)
Capital grants and contributions	1,947,216	2,151,361	(204,145)
Less expenses	90,196,257	87,809,475	2,386,782
Net program revenue (expense)	(17,110,788)	(19,510,238)	2,399,450
General revenues:			
Transfers:			
State appropriations	12,886,711	16,895,424	(4,008,713)
State capital appropriations	247,507	2,108,346	(1,860,839)
Capital improvement bond proceeds	-	-	-
Research infrastructure bond proceeds	377,224	487,102	(109,878)
Transfers from The Citadel Trust	5,636,167	6,254,206	(618,039)
Total general revenue and transfers	19,147,609	25,745,078	(6,597,469)
Change in net assets	2,036,821	6,234,840	(4,198,019)
Net assets - beginning	102,937,486	96,702,646	6,234,840
Net assets - ending	\$104,974,307	\$102,937,486	\$ 2,036,821

<u>The Citadel Trust</u>	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Operating grants and contributions	\$ 3,366,544	\$ (1,411,970)	\$ 4,778,514
Capital grants and contributions	27,000	18,000	9,000
Less expenses	13,016,944	125,844	12,891,100
Net program revenue (expense)	(9,623,400)	(1,519,814)	(8,103,586)
General revenues:			
Contributions to permanent endowments	1,150,280	5,038,903	(3,888,623)
Transfers:			
Transfers to The Citadel	(5,636,167)	(6,254,206)	618,039
Total general revenue and transfers	(4,485,887)	(1,215,303)	(3,270,584)
Change in net assets	(14,109,287)	(2,735,117)	(11,374,170)
Net assets - beginning	69,917,020	72,652,137	(2,735,117)
Net assets - ending	\$ 55,807,733	\$ 69,917,020	\$ (14,109,287)

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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Total Expenditures</u>
<u>Research and Development Cluster:</u>			
Department of Commerce			
Passed through SC Sea Grant Consortium			
Coastal Stormwater Pond Sediments	11.RD	NA05NOS4191093	\$ 2,120
Total Department of Commerce			<u>2,120</u>
National Aeronautics and Space Administration			
Passed through The College of Charleston			
SC Space Grant Consortium	43.RD	NNG05G168G	<u>1,727</u>
Total National Aeronautics and Space Administration			<u>1,727</u>
National Science Foundation			
Passed through The College of Charleston			
Automatic Telescope	47.RD	AST-0507381	25,728
CCD Spectrophotometer	47.RD	AST-0115612	303
Passed through Southern Illinois University			
Southern Illinois Subagreement	47.RD	DEB-0516429	<u>8,547</u>
Total National Science Foundation			<u>34,578</u>
Total Research and Development			<u>38,425</u>
<u>Student Financial Aid Cluster:</u>			
Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	P007A083769	82,663
Federal Work Study Program	84.033	P033A083769	51,099
Federal Perkins Loan Program	84.038	P038A083769	4,629
Federal Pell Grant Program	84.063	P063P080375	1,082,164
Academic Competitive Grants	84.375	P375A080375	51,629
National Science and Mathematics Access to Retain Talent Grant	84.376	P376S080375	12,000
William D. Ford Direct Loan Program	84.268	P033A083769	<u>18,300,912</u>
Total Department of Education			<u>19,585,096</u>
Total Student Financial Aid			<u>19,585,096</u>
<u>Other Programs:</u>			
Department of Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A050032	158,095
Passed through the National Writing Project Corp.			
National Writing Project	84.928A	99-SC09	<u>78,217</u>
Total Department of Education			<u>236,312</u>
Department of Justice			
Passed through Rutgers University			
I-95 Domestic Security	16.614	2007-DD-BX-K135	<u>21,880</u>
Total Department of Justice			<u>21,880</u>
Department of Navy			
Cooperative Agreement with Department of Navy	12.300	N69450-08-RP-0031	<u>7,342</u>
			<u>7,342</u>
Department of Transportation			
Passed through University of South Carolina			
Behavior of Pile to Pile Cap Connections	20.205	20 08-1520	14,975
Passed through Clemson University			
Guidelines for Longitudinal Pavement Marking Applications	20.205	1191-7557-223-20063	2,519
Roadside Hazards	20.205	1109-7557-223-20059	<u>6,462</u>
Total Department of Transportation			<u>23,956</u>
National Science Foundation			
Passed through Harvard University			
Collaborative Research	47.074	DEB-0732903	<u>5,026</u>
Total National Science Foundation			<u>5,026</u>
Total Other Programs			<u>294,516</u>
Total Expenditures of Federal Awards			<u>\$ 19,918,037</u>

THE CITADEL
The Military College of South Carolina
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Note 1 - Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of The Citadel and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The Federal Perkins Loan Program (CFDA Number 84.038) is administered directly by The Citadel and balances and transactions relating to the program are included in the loan fund of The Citadel's financial statements. The balance of loans outstanding under the Federal Perkins Loan Program was \$648,361 as of June 30, 2009.

The Federal Direct Student Loan program provides loan capital directly from the federal government (rather than through private lenders) to vocational, undergraduate, and graduate students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the university level.

Note 3 - Matching

Under the Federal Work Study program, The Citadel matched \$16,636 for the year ended June 30, 2009 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the Federal Supplemental Education Opportunity Grant program, The Citadel matched \$27,554 for the year ended June 30, 2009 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Note 4 - Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, The Citadel provided no federal awards to subrecipients.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

We have audited the financial statements of the business-type activities and the discretely presented component units of The Citadel, The Military College of South Carolina (The Citadel) as of and for the year ended June 30, 2009, which collectively comprise The Citadel's basic financial statements and have issued our report thereon dated September 30, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of The Citadel Trust, as described in our report on The Citadel's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of The Citadel Foundation and The Citadel Brigadier Foundation were not audited in accordance with *Government Auditing Standards*. Other auditors audited the financial statements of The Citadel Brigadier Foundation, as described in our report on The Citadel's financial statements.

Internal control over financial reporting

In planning and performing our audit, we considered The Citadel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of The Citadel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether The Citadel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Citadel in a separate letter dated September 30, 2009.

This report is intended solely for the information and use of the audit committee, management, and the federal awarding agencies and pass-through entities of The Citadel and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Greenwood, South Carolina
September 30, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Members of the Board of Visitors
The Citadel, The Military College of South Carolina
Charleston, South Carolina

Compliance

We have audited the compliance of The Citadel, The Military College of South Carolina (The Citadel) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2009. The Citadel's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of The Citadel's management. Our responsibility is to express an opinion on The Citadel's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about The Citadel's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Citadel's compliance with those requirements.

In our opinion, The Citadel complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2009.

Internal control over compliance

The management of The Citadel is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered The Citadel's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of The Citadel's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Citadel's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, and the federal awarding agencies and pass-through entities of The Citadel and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Greenwood, South Carolina
September 30, 2009

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of The Citadel.
2. No material weaknesses or significant deficiencies relating to internal control over financial reporting were noted during the audit.
3. No instances of noncompliance material to the financial statements of The Citadel were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to internal control over major federal award programs were noted during the audit.
5. The auditor's report on compliance for the major federal award program for The Citadel expresses an unqualified opinion.
6. The programs tested as major programs include:

Federal Student Aid Cluster:	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Academic Competiveness Grant	84.375
National Science and Mathematics Access to Retain Talent Grant	84.376
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Citadel qualifies as a low-risk auditee under Circular No. A-133.

B. FINANCIAL STATEMENT FINDINGS REPORTED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

None

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

THE CITADEL, THE MILITARY COLLEGE OF SOUTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2009

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, the following is the status of known material findings and recommendations from prior year audits:

None